



# Drivers of Multifamily Housing Costs and Affordability in Atlanta

2019

# Table of Contents

- Table of Figures ..... ii**
- Executive Summary ..... 2**
- 1. Introduction ..... 9**
  - 1.1 The Challenge – Rents in Atlanta Continue to Rise Sharply..... 10
  - 1.2 Understanding the Relationship between Rent, Development Costs, Supply, and Demand ..... 10
  - 1.3 Methodology..... 11
  - 1.4 A Framework for Understanding Apartment Development Economics..... 13
- 2. Key Macroeconomic Factors Influencing Housing Costs..... 15**
  - 2.1 Summary of Findings ..... 15
  - 2.2 The Effect of Atlanta’s Economic Growth on Demand and Rents..... 16
  - 2.3 Limiting New Multifamily Development through Zoning and Historic Economic Disparities..... 17
  - 2.4 Higher Construction Costs have Increased the Rent Required to Support New Development..... 21
- 3. Affordable Housing and the Need for Subsidy ..... 26**
  - 3.1 Potential Capital Subsidy Required for Affordable Units..... 26
  - 3.2 Newly-constructed Housing is Future Naturally-occurring Affordable Housing..... 26
- 4. Municipality-controlled Cost Drivers ..... 28**
  - 4.1 The Influence of Municipalities on Development and Operating Costs..... 29
  - 4.2 The Impact of Potential Policies on Rent ..... 32
  - 4.3 The Cumulative Impact of Municipal Policies ..... 39
  - 4.4 By-right Development vs Discretionary Approval ..... 40
- 5. Key Takeaways..... 41**
- Appendix A: Financial analysis key assumptions ..... 44**
- Appendix B: Interview Key Findings ..... 48**
  - B.1 Key Findings..... 48

## Table of Figures

Figure 1: Average Multifamily Rents in Atlanta .....	10
Figure 2: Summary of Housing Typologies.....	12
Figure 3: Simplified Apartment Development Framework.....	13
Figure 4: City of Atlanta Population Growth 2010 – 2017 .....	16
Figure 5: Atlanta Region Households by Income: 2010 – 2017 .....	17
Figure 6: Key Demographics and Housing Metrics: North and South Atlanta (2016).....	18
Figure 7: Single-Family Zoned Land as a Percentage of Total Residential Land .....	19
Figure 8: Multifamily units built since 2000.....	20
Figure 9: Observed vs Expected Construction Costs in Atlanta .....	21
Figure 10: Construction Cost Indexes by City (compared to national benchmarks) .....	21
Figure 11: Construction Labor Shortage: Atlanta MSA 2008 - 2017 .....	22
Figure 12: Land Costs and Minimum Required Rents: .....	22
Figure 13: Buckhead Multifamily Production (1990 – 2020).....	23
Figure 14: Midtown Multifamily Production (1990 – 2020) .....	24
Figure 15: Old Fourth Ward Multifamily Production (1990 – 2020) .....	25
Figure 16: Capital Subsidy Required by AMI (200-unit Wrap Apartment) .....	26
Figure 17: Rent by Decade Unit Built .....	27
Figure 18: Municipal cost drivers: Apartment Development Framework .....	29
Figure 19: Impact Fees by Jurisdiction and Resulting Impact on Rent .....	30
Figure 20: Property Tax Increase .....	33
Figure 21: Project Delay and Construction Cost Increase .....	34
Figure 22: Increase in Impact Fee .....	35
Figure 23: Community Exaction .....	36
Figure 24: Loss of 30 Units .....	37
Figure 25: 10% Increase in Hard Costs .....	38
Figure 26: Cumulative Impact of Policies.....	39



# What Contributes to the Rising Cost of Housing in Metro Atlanta?

### **Metro Atlanta's economic growth has led to a rapid increase in demand for housing.**

Between 2010 and 2017, the region has added more than 425,000 jobs – a 19% increase. In the same period, the region added 220,000 new households. Most of the increase in households were renters (67%+) who, on average, have higher incomes than existing renter households. These new renters compete for existing housing units and drive up rents.

**Rapid growth in construction costs (80% between 2000 - 2016) and in land prices (17%) has increased the cost of development and the rents necessary to support new apartments.** As land prices increase, developers must increase density to spread land costs across a larger number of units. The cost of construction at these higher density typologies is significantly higher per unit, further driving up costs.

### **Municipal policies can significantly impact rents.**

Municipal taxation policies and practices regarding the reassessment of properties, the cost of building permits, community exactions, and other added regulatory costs and fees directly impact the cost to construct or operate a property. In turn, increased costs require a corresponding rise in rents to make new development feasible. If housing affordability is a public goal, municipalities must consider the effect of municipal cost drivers on overall affordability.

### **Restrictive zoning and historic economic disparities in select neighborhoods limit new multifamily development.**

Zoning in much of northern Atlanta and a lack of market demand in southern Atlanta limit the supply of new apartments. These constraints limit the supply of new apartments to a few neighborhoods where renters are willing to pay market-rate rents and zoning permits new apartments.

### **A comprehensive approach is required to promote affordability in the Atlanta region.**

Cities can partner with developers to promote housing affordability through by-right zoning, investments in infrastructure, commitment of resources to affordable housing development including subsidies, and streamlining the permitting and design process to minimize delays and added costs.

## +16%

Increase in households since 2010

## +80%

Increase in construction costs since 2000 – twice the rate of inflation. (Craftsman Construction Cost Index 2018)

## +20%

Increase in monthly rent required to make new supply feasible as a result of the cumulative effect of 6 hypothetical municipal policies evaluated. (Section 4.3)

## 89%

Of all residential land in North Atlanta is zoned exclusively for single-family

## A development framework can help define the relationships between costs and rents.

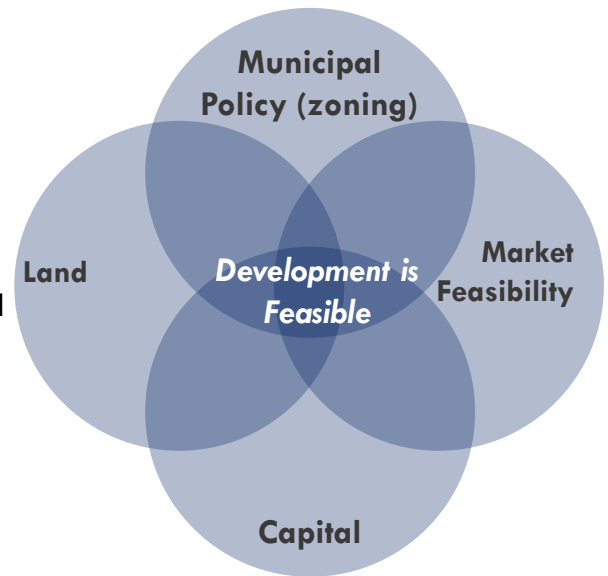
Development only occurs when municipal policy, access to capital, available land, and market feasibility all align.<sup>1</sup>

**Municipal Policy:** Zoning, density, and regulations must permit development of multifamily projects.

**Market Feasibility:** The market must have sufficient demand to support the absorption of new units.

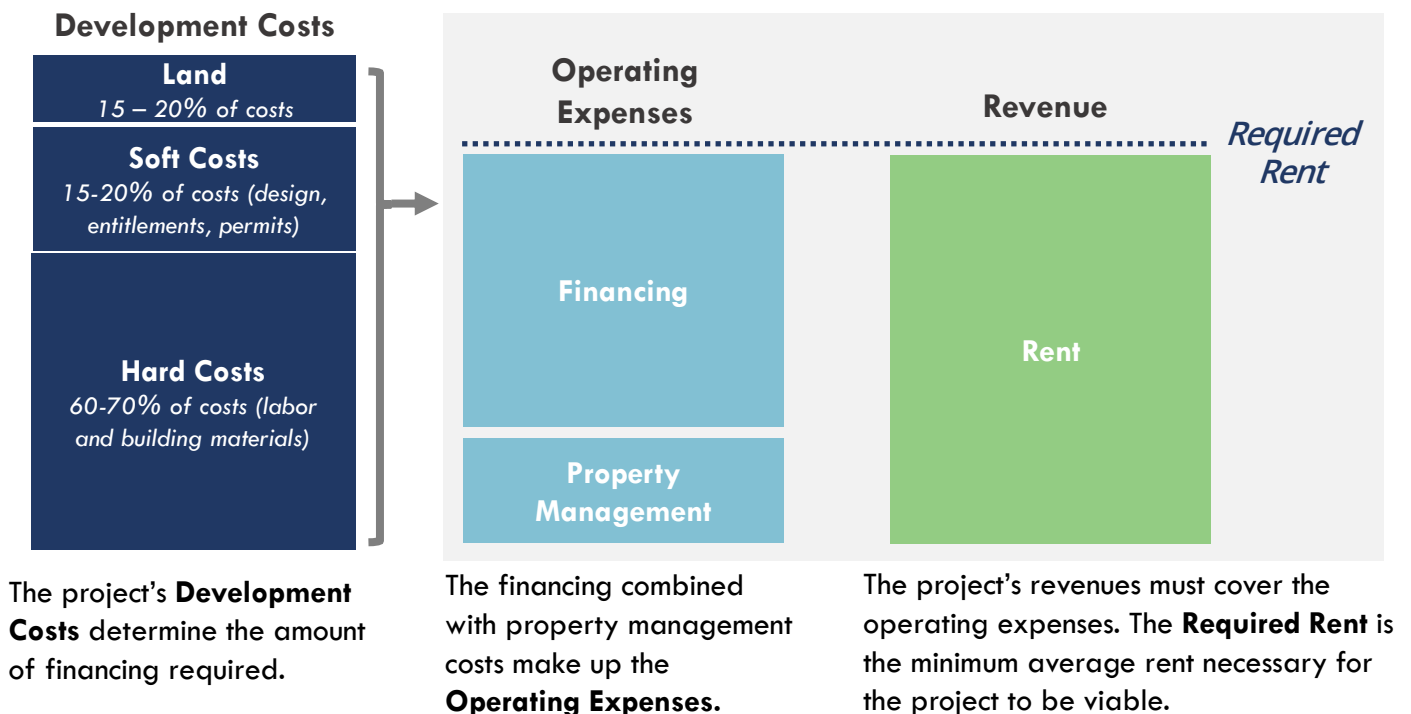
**Land:** Land must be available for a reasonable price.

**Capital:** Developers secure capital to finance the project, promising adequate returns to investors.



The project must earn sufficient rents to cover operating expenses, including financing costs used to pay for the physical development. If costs increase, project revenues must also increase. If the market cannot support the higher rents, the project is not viable and will not move forward, restricting future housing supply and further exacerbating affordability challenges.

The framework below is a simplified representation of the apartment development process, illustrating the relationship between costs and rents.



1. Adapted from: Williams, Stockton, et al. *The Economics of Inclusionary Development*. Urban Land Institute, 2016

## Rising housing costs are largely the result of Atlanta's success and growth.

Housing prices and rents are significantly influenced by overall demand and increasing household incomes.

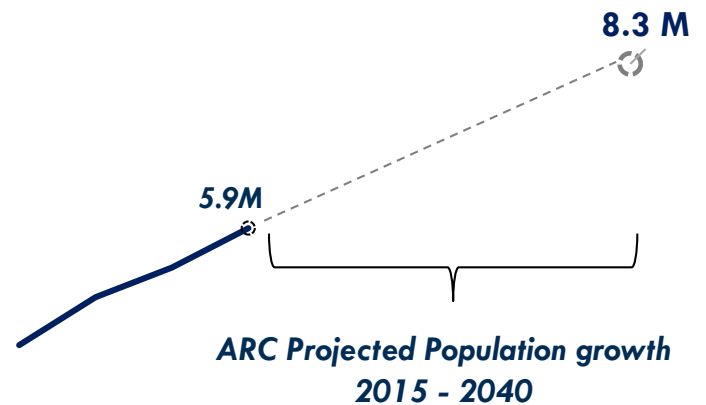
### Population in the region has grown significantly, increasing demand for housing.

Since 2010, the region has added more than 425,000 jobs and expanded its population by 12%. The Atlanta Regional Commission projects that the city of Atlanta will grow at an even faster pace in the future, 6% annually, adding an average of 30,000 households per year. **Over the next 25 years, the region will need an additional 290,000 new housing units for these residents.**

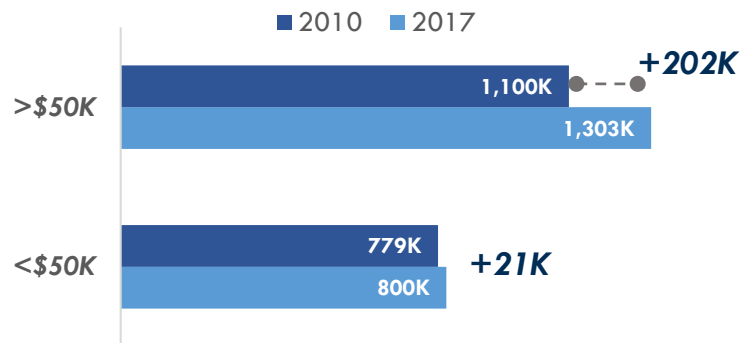
The region's population increase has been primarily driven by higher-wealth households, increasing competition for housing in desirable neighborhoods. Between 2010 and 2017, metro Atlanta only gained a net of 21,000 households earning less than \$50,000. **In the same period, the region added 202,000 households making more than \$50,000, with more than 24% of the new households making more than \$150,000.** These new households have greater wealth to expend in the competition for housing in the metro's most desirable locations.

The growing wealth is reflected through increasing regional GDP and growth in high paying jobs. The region's GDP grew by \$113B between 2010 and 2016 – an increase of 41%. During this time, the city added approximately 30,000 new jobs in high-paying sectors like professional and scientific services, finance, and information – sectors in which average earnings per worker exceed \$100,000.

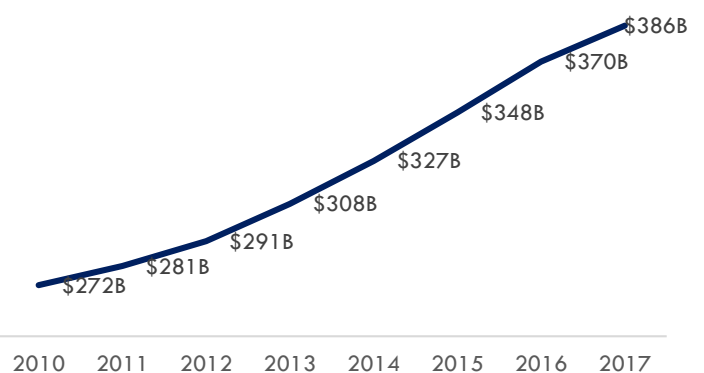
Forecast MSA Population 2000 – 2040



Change in Households by Income



GDP Growth in metro Atlanta (in \$B)



## Construction costs have increased at twice the rate of inflation

Construction costs have increased by 17% since 2010 and more than 80% since 2000.

**Construction costs have increased dramatically across the country since 2010 because of the increasing cost of materials and rising wages.** In Atlanta, construction costs increased by 17% since 2010 based on the Craftsman construction cost index and more than 80% since 2000. This increase is significantly higher than the expected increase based on overall inflation.

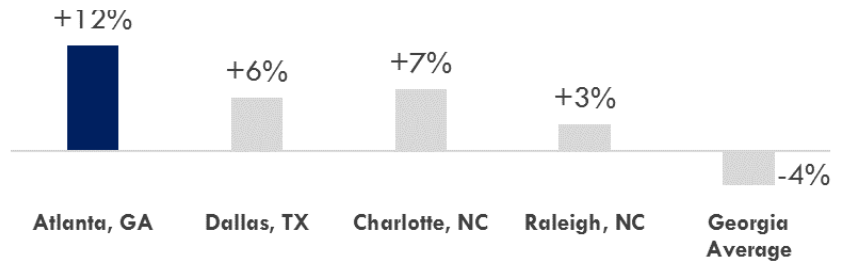
**Atlanta's construction costs are the highest among comparable southern cities.** In 2018, Atlanta had construction costs 12% higher on average than national benchmarks, compared to only 6% in Dallas and 3% in Raleigh. Additionally, on average, the state of Georgia has construction costs 4% lower than the national benchmark.

**One of the key drivers of Atlanta's construction costs is a shortage of skilled local construction labor.** Before the recession, Atlanta had about 100,000 workers in the construction industry. This workforce shrank by more than 30% by 2010 as the industry contracted and has yet to recover to pre-recession levels despite increased construction.

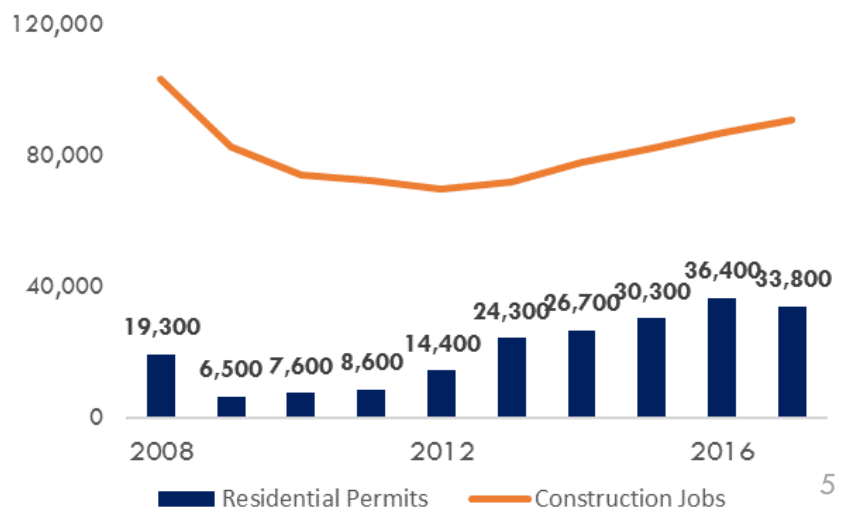
**Observed vs Expected Construction Costs in Atlanta**



**Construction Cost Indexes by City (compared to national benchmarks)**



**Construction Labor Shortage: Atlanta MSA 2008 - 2017**



# Executive Summary

## Municipal policies can significantly impact multifamily rents.

The cumulative impact of numerous regulations that municipalities control can significantly increase development and operation costs.

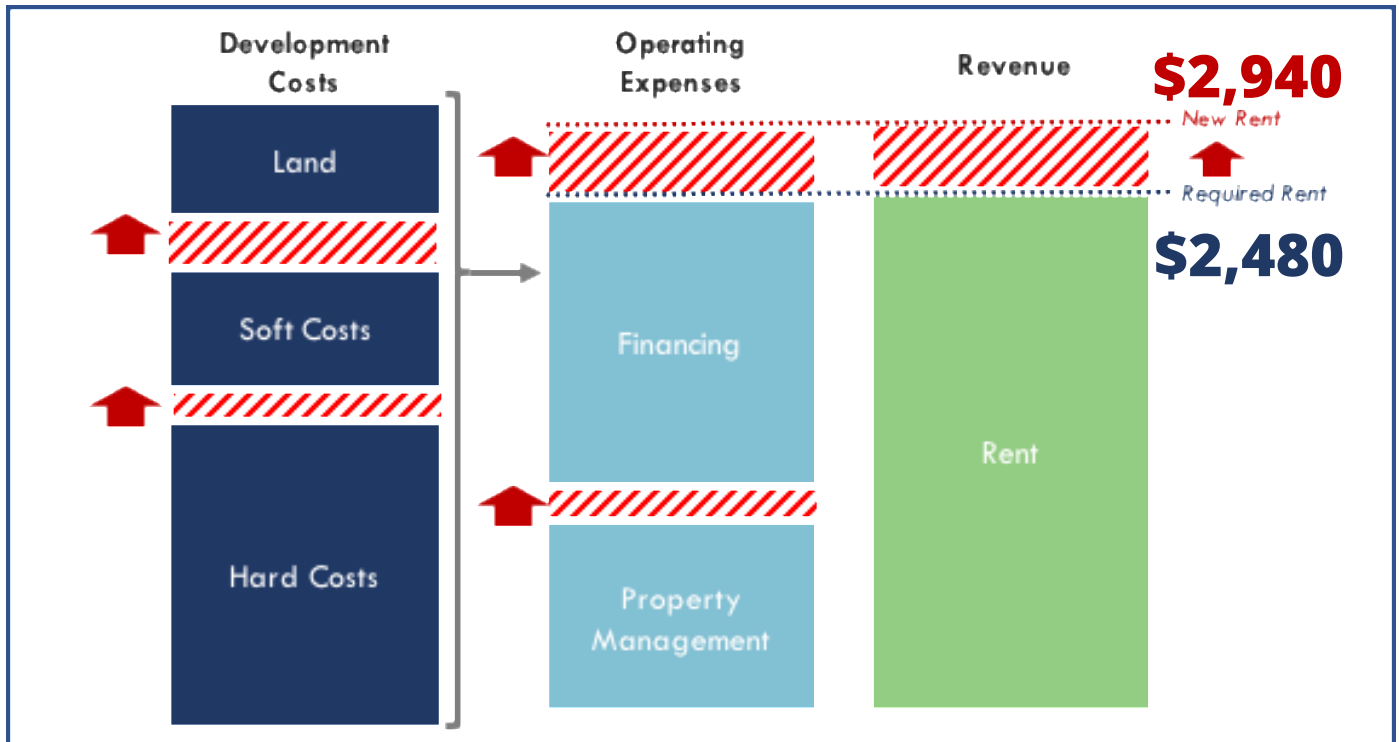
Although each municipal fee or regulation may seem to have a small individual impact, the cumulative impact of all policies can substantially increase rents. If a project faced the six hypothetical, but typical policies evaluated, rents may increase 18% – 20%. This is the difference between a new garden apartment being affordable to a two-person household earning about \$90,000 annually, to only being affordable to a household making more than \$105,000. If housing affordability is a public goal, municipalities must consider the effect of these collective municipal cost drivers on overall affordability.

### Municipal Policies Evaluated:

- Tax Increase (by 10% annually after stabilization)
- Project delay by six months + 5% increase in construction costs
- Impact fee increase (+\$5K per unit)
- Hard cost increase (+10% of construction)
- Community Exaction (\$600K)
- Density reduction from 200 units to 170 units.



### Cumulative Impact of Hypothetical Municipal Policies: 200-unit wrap apartment



- See Appendix A for detailed assumptions of the prototypical developments.
- See Section 4.1 for a detailed evaluation of each policy.



# Executive Summary

## New multifamily development is limited to a few neighborhoods, constricting supply.

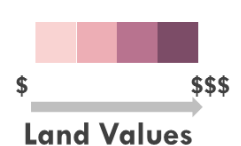
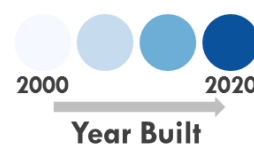
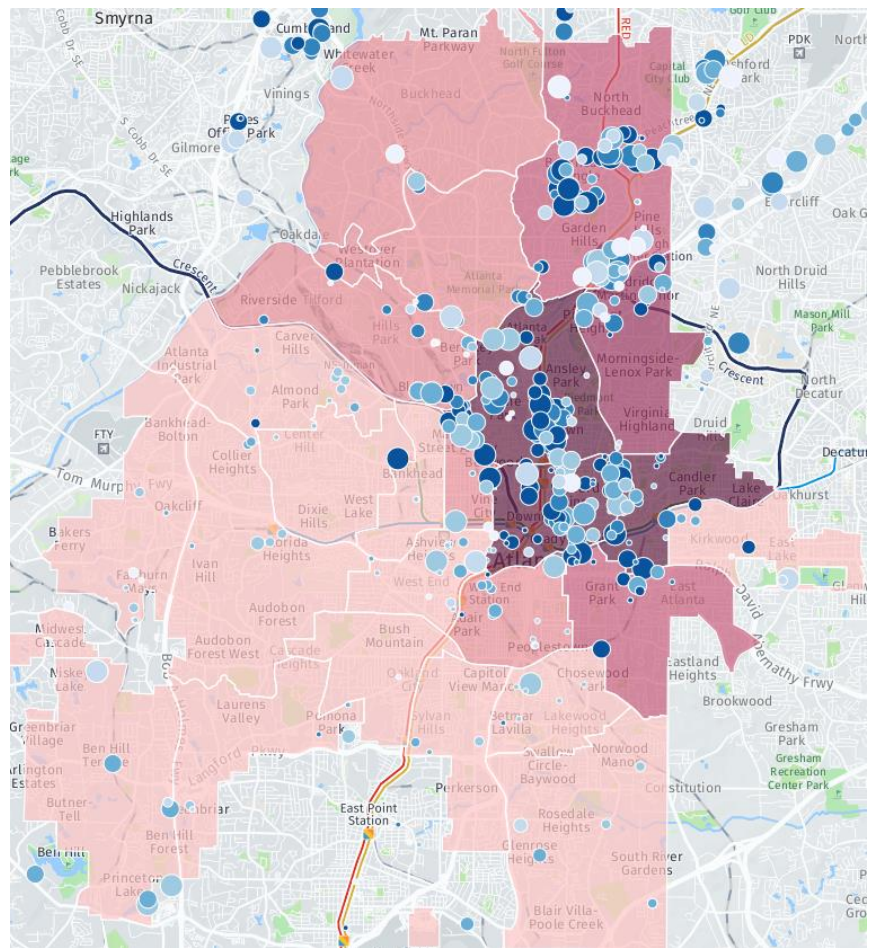
The demand for new apartments is concentrated in only a few neighborhoods, exacerbating the impact of Atlanta's growing renter population on rents in those neighborhoods.

**Most neighborhoods in south and west Atlanta cannot support new development due to low market rents.** Although land in much of south and west Atlanta is relatively less expensive, prevailing market rents cannot support new development.

**Neighborhoods with supportable rents are overwhelmingly zoned for single-family development.** Outside of a few concentrated dense nodes such as Buckhead, North and East Atlanta are primarily made up of single-family neighborhoods where zoning prohibits multifamily development.

**Multifamily development can only occur where zoning and market feasibility align.** The development of new multifamily housing is limited to the few development nodes where rents can support the cost of new construction and zoning permits multifamily development. As a result, these neighborhoods (Downtown, Midtown, Buckhead, and portions of west and east Atlanta along the BeltLine) have the highest land prices in Atlanta. The rest of the city does not support new construction, either because of zoning restrictions or market feasibility.

### Multifamily Units built since 2000



# A comprehensive approach is required to promote affordability in the region.

Municipalities and the development community can work together to reduce costs and rents.

### 1. Understand and evaluate the cumulative impact of all municipal policies on rent.

When municipal policies are layered together, they can significantly raise the rent required to expand the supply of multifamily housing and can hurt affordability for middle-income households. Municipalities should consider two key questions through an affordability impact statement when evaluating new policy:

- *What is the direct result of this policy on future rents?*
- *What is the indirect effect on overall housing affordability and supply?*

### 2. Expand by-right zoning for apartments – especially in parts of the region that are experiencing the most growth.

Increasing the amount of land zoned for apartments has the potential to increase the supply of new housing, reduce development costs and meet rising demand. As the Atlanta region continues to be an attractive place to live and work, population growth will increase. Apartments offer a cost-effective and sustainable opportunity for the region to meet this demand.

### 3. Streamline and reform permitting processes and approvals to reduce lengthy delays.

Municipalities across the region should streamline and reform permitting processes and the issuance of certificates of occupancy. Development experts report that securing these approvals is a major factor increasing the cost and reducing the speed of development.

### 4. Commit local and external resources to preserve existing affordable housing and to subsidize the creation of new affordable housing.

Dedicated housing that is affordable at less than 100% of median income is not feasible without a subsidy. Atlanta faces a widening gap between household incomes and rents, especially for households making less than \$40,000 annually (60% of the median income for a 3-person household). Commitments of public funding, like Mayor Lance Bottoms' \$1B housing pledge, are critical to preserving existing affordable units as neighborhoods undergo change. Strategies to generate this funding should be subject to the same questions posed in the proposed affordability impact statement. For example, increasing property taxes on apartments to pay for housing affordability might be counter-productive, as the increase in taxes may reduce affordability for more households than the potential revenue could provide.

### 5. Consider tax incentives to produce affordable units and increase overall supply.

Municipalities should consider offering property tax incentives in return for affordability. In stronger neighborhoods and markets, municipalities can require a reduction in rent in exchange for a commensurate reduction in property taxes. Each dollar of tax abatement provided can result in an additional dollar of affordability per unit. In weaker markets, providing a property tax incentive to build can have an indirect impact on affordability by increasing overall supply and reducing the rent required for a project.

# 1. INTRODUCTION

Housing affordability is a growing issue in Atlanta with significant implications for the region's economic competitiveness and sustainability. Affordable housing is critical to a thriving economy and provides residents with equitable access to opportunities. The multifamily development community is a key partner in providing housing to meet Atlanta's growing demand.

The rent required to support the construction of new apartment communities is determined by the cost to develop and operate these properties. As construction and operating costs increase in Atlanta, rents must also increase. The City of Atlanta and municipalities across the region can influence affordability through policies, programs, and resources to affect the underlying cost drivers of constructing and operating housing. As policy leaders grapple with strategies to improve affordability, it is imperative that any proposed new policy, incentive, or regulation consider and address these root cost drivers.

The Atlanta Apartment Association (AAA) and HR&A Advisors, Inc. (HR&A) produced the following report to identify factors that impact housing affordability in the Atlanta region and to encourage stakeholders and leaders to partner with the development community to improve housing affordability. Founded in 1975, AAA is the multifamily housing trade association for the Atlanta metropolitan area and is one of the largest local apartment associations in the country. The association is an affiliate of the Georgia Apartment Association and the National Apartment Association. Currently, AAA represents over 1,450 members, including 370 companies who own and manage nearly 400,000 apartment homes and over 1,100 businesses that provide products and services to the industry. The AAA's mission is to support its members through legislative and industry representation, education programs, information dissemination, networking, and community relations.

HR&A is an industry-leading real estate, economic, and public policy consulting firm with over 40 years of experience evaluating the impact of urban policies. HR&A has completed multiple assessments of citywide housing policies and programs and has shown its ability to identify improvements in regional housing policies to facilitate development and broaden affordability. HR&A has worked extensively in and around the metropolitan Atlanta region for both public- and private-sector clients.

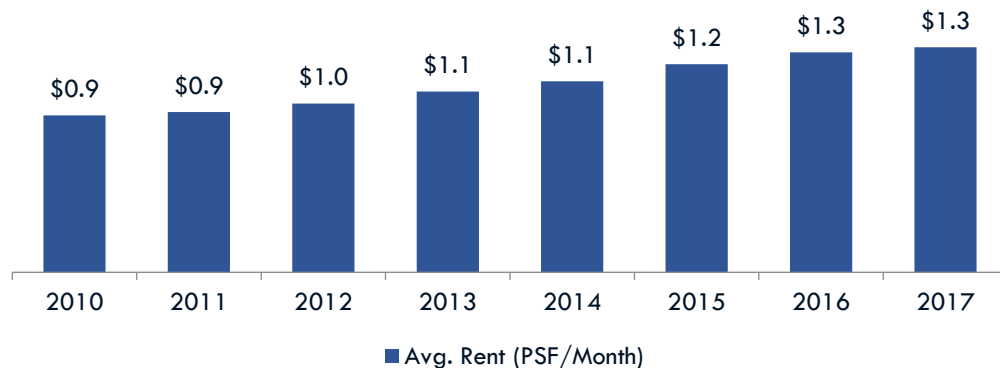
To identify and examine the factors contributing to rising rents and affordability challenges in Atlanta, HR&A conducted the following analyses:

- Assessed the demand- and supply-side drivers of housing costs in the Atlanta region;
- Conducted interviews with developers, brokers, and lenders active in Atlanta to better understand building project costs and the regulatory environment affecting housing development and operations; and
- Evaluated the impact of common policies on the rents required to make development of new apartments viable through four (4) hypothetical proforma models of common multifamily typologies in Atlanta.

## 1.1 The Challenge – Rents in Atlanta Continue to Rise Sharply

Atlanta has a growing affordability challenge. Since 2010, the rent per square foot for apartments in the city of Atlanta has increased by 39%<sup>1</sup> – from an average of \$0.92 per square foot in 2010 to \$1.32 per square foot in 2017. At these prices, the earnings required to spend less than 30% of household income on an 800-square-foot apartment, a common metric for housing affordability, increased from \$29,440 to \$42,240. While housing supply grew considerably, increasing 30% between 2010 and 2016, it did not keep up with demand. 33,000 units were built in this period – 28,800 multifamily units (87%) and 5,200 single-family homes (13%).<sup>2</sup>

Figure 1: Average Multifamily Rents in Atlanta<sup>3</sup>



## 1.2 Understanding the Relationship between Rent, Development Costs, Supply, and Demand

The development of effective policies to address housing affordability requires an understanding of the relationship between market rents, development costs, and the overall supply of housing. Market rent is broadly determined by housing demand and the supply of units available. If demand exceeds supply, competition among renters for limited units will drive up rents – potentially displacing the city’s low-income residents. The demand for housing is significantly influenced by the regional economy. As the region continues to grow and stimulate job growth, households will move to the region and increase the demand for housing. To prevent rents from rising, housing supply must increase to meet this demand. Supply is influenced by the cost to construct and operate apartments. The higher the cost incurred by a developer, the higher the rent required to support operations and deliver a sufficient return to investors.

Successful development requires that land, zoning regulation, capital investment, and market demand align. If any of these elements are absent, development will not proceed. Developers rely on partnerships with investors to build new projects. The developer provides expertise and takes on a substantial amount of the risk associated with the project (entitlement, construction, interest rate, market, etc.). Investors provide funds (equity) in exchange for a share of the resulting profits. **Development deals must offer sufficient returns, typically a 15% to 20% rate-of-return, to compensate developers and investors.** If

<sup>1</sup> CoStar, 2017

<sup>2</sup> City of Atlanta Permit Data 2010 – 2016. All permitted units may not have been built.

<sup>3</sup> CoStar, 2017



project risks increase or the potential returns decrease, investors are likely to pursue other investment opportunities in less restrictive market settings.

This report assumes that new housing construction occurs if there is suitable land and a project meets capital investment expectations. Based on consultation with an advisory committee of AAA members and interviews with active local developers, **HR&A selected a 16% internal rate-of-return (IRR) as the benchmark financial return metric for the analyses in this report.**

If the demand for apartments continues to increase and developers are unable to increase the supply, competition among renters will drive up rents. Eventually, rents will increase enough to offer attractive returns to investors again, and new construction resumes. If a policy change or economic condition results in an increase in costs or risk, over time rents will rise again to meet investor return requirements.

### 1.3 Methodology

To evaluate the factors contributing to the growing affordability challenges in the Atlanta region, HR&A undertook the following methodology:

- Interviewed local real estate development experts and analyzed real estate and demographic data to identify the factors contributing to the rising cost of housing in Atlanta
- Built a hypothetical proforma for a typical multifamily development across four common housing typologies
- Identified six potential policies affecting the cost of housing development or operations for further analysis
- Tested the impact of the potential policies on the financial performance and required rent on the four hypothetical developments

#### Interviews with real estate development experts and data analysis

HR&A and AAA identified a range of real estate experts with insight into the local real estate market to help identify the factors contributing to rising rents in Atlanta. HR&A also conducted an analysis of multifamily housing development and demographic data to analyze local demand trends. The experts interviewed represented the following professions:

- Multifamily housing developers
- Single-family housing developers
- Affordable housing developers
- Real estate brokers
- Multifamily housing operators

*Further details can be found in Appendix B*

#### Development of hypothetical multifamily projects

To test how various policies could impact the cost of developing new housing, HR&A created proformas modeling four hypothetical 200-unit multifamily developments. These four projects represent multifamily development typologies currently seen in the regional Atlanta market. A proforma is a financial analysis tool used to calculate the potential financial return of a real estate development based on cost, revenue, and capital assumptions. HR&A reviewed the proposed developments with an advisory committee of AAA members to ensure that they generally reflect current development conditions in Atlanta. The four typologies modeled are:



**Garden Apartments:** Low-rise multifamily communities, characterized by a considerable amount of open space around multiple buildings and surface parking. These communities are often found at the outer edges of Atlanta and in the suburbs with cheaper land prices.



**Wrap:** A building of four to five stories surrounding a central parking deck. The wrap typology offers greater density per acre than garden apartments but have higher construction costs per square foot.



**Podium:** A building of five to six stories of wood framed apartments built on a concrete base. The concrete base, or podium, may be used as parking or retail. Additional parking is often provided in an adjacent structure.



**Tower:** A building with nine or more stories constructed with steel and concrete. Towers may exceed 60 stories in Atlanta and are found in the Downtown, Midtown, and Buckhead neighborhoods. Towers have the highest density of the four typologies as well as the highest construction costs.

Figure 2: Summary of Housing Typologies

Typology	Garden Apartment	Wrap	Podium	Tower
Units per acre	15 – 30	50 – 90	75 – 110	175 – 225
Parking	Surface parking	Structured spaces	Structured spaces	Structured or underground spaces
Construction costs	\$140+ per SF	\$200+ per SF	\$230+ per SF	\$281+ per SF
Minimum rent required (at 16% return) for a new 2BR unit	\$1,890 per month	\$2,480 per month	\$2,740 per month	\$3,220 per month

Full details of the assumptions made can be found in Appendix A

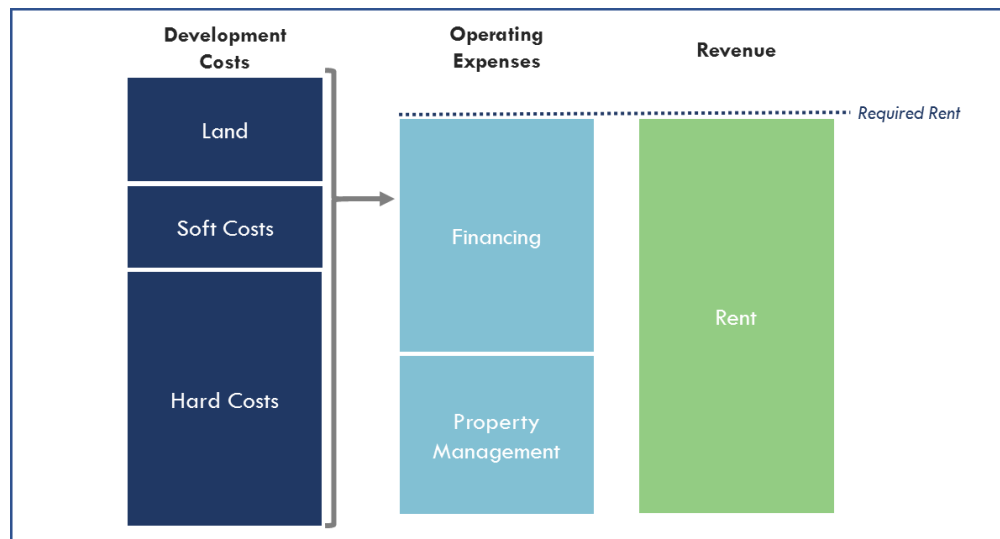
## Identifying and testing policies affecting the cost of development

HR&A identified policies and regulations that affect the cost of developing and operating housing in Atlanta to model how they affected the rents required to develop new housing supply. Through interviews, HR&A produced a list of municipal actions, ranging from increases in property taxes to new impact fees and reviewed the list with the advisory committee. This report focuses on some of the policies and regulations that municipalities control to demonstrate how cities in the Atlanta region influence production costs and can help increase supply to limit the rise in housing rents. Using proforma models, HR&A then evaluated the impact of the identified policies on each of the four typologies. For each policy, HR&A calculated the change in the rent required to maintain the 16% IRR, the financial return required for developers and investors to proceed with a project.

### 1.4 A Framework for Understanding Apartment Development Economics

**Development costs influence the operating costs for a property, which determine the rent required to make a project feasible.** Constructing new apartments incurs **development costs** – land costs, hard costs (labor and building materials), and soft costs (design, entitlements and permitting) that are paid for with financing. As development costs increase, more financing is needed to cover these costs – increasing overall operating expenses. In turn, these operating expenses are supported by the revenue that a project generates through rent. As operating expenses increase, rent must increase in tandem to support the project and maintain its feasibility.

Figure 3: Simplified Apartment Development Framework



**Development costs:** Costs associated with planning, designing, and constructing apartments. These costs are further divided into three categories:

- **Land.** Purchase of land and associated costs such as legal and transfer taxes.
- **Soft costs.** Design, entitlements (legal approval to develop property), building permits, and other non-direct construction costs.
- **Hard costs.** Labor and building materials.

**Operating expenses:** Costs associated with operating and maintaining apartments after construction.

- **Financing.** Comprised of debt service and equity returns. Debt is secured in the form of loans from a financial institution to support the building. Equity is an investment of money in exchange for an ownership stake of the resulting revenue from a property. Equity investors expect to receive competitive returns in exchange for taking on the risk of investing in the project.
- **Property Management.** Ongoing property costs, including routine maintenance, staffing, insurance, and property taxes.

**Revenue:** Income generated by the property.

- **Rent.** Payments by residents to occupy the apartments.
- **Supplementary sources.** Apartments may have smaller additional sources of income such as parking fees, laundry, or amenity fees that comprise a small portion of the total revenue.



## 2. KEY MACROECONOMIC FACTORS INFLUENCING HOUSING COSTS

### 2.1 Summary of Findings

There are three major macroeconomic factors influencing rent, development costs, and operating costs in Atlanta, and thereby impacting overall affordability. These factors bear substantial responsibility for the increase in overall rents in the past decade and are largely beyond the influence of developers, municipalities, and housing advocates. The influence of municipal policies on development costs and supply of housing is examined in detail in Chapter 4.

- **Demand**

**The Atlanta region's economic growth has led to a rapid increase in demand for housing.**

Between 2010 and 2017, the region has added more than 425,000 jobs – a 19% increase. In the same period, the region added 220,000 new households. Most of the increase in households were renters (67%+) who, on average, have higher incomes than existing renter households. These new renters compete for existing housing units and driving up rents.<sup>4</sup>

- **Supply**

**Restrictive zoning and historic economic disparities in select neighborhoods limit new multifamily development.** Zoning in much of northern Atlanta and a lack of market demand in southern Atlanta limits the supply of new apartments. These constraints limit the supply of new apartments to a few neighborhoods where renters are willing to pay market-rate rents and zoning permits new apartments.<sup>5</sup>

- **Cost**

**Rapid growth in construction costs (80% between 2000 - 2016) and in land prices (17%) has increased the cost of development and the rents necessary to support new apartments.** As land prices increase, developers must increase density to spread land costs across a larger number of units. While land cost per unit declines with the increase in density, the cost of construction increases, which results in higher required rents per SF of development.<sup>6</sup>

---

<sup>4</sup> American Communities Survey 2017, 2010

<sup>5</sup> Fulton County GIS, 2018

<sup>6</sup> Based on Craftsman 2016 Cost Indices, Lincoln Institute of Land Policy, 2016.

## 2.2 The Effect of Atlanta’s Economic Growth on Demand and Rents

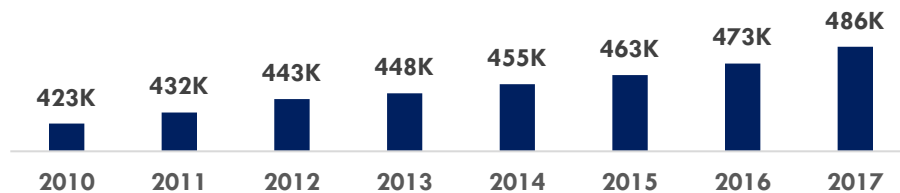
Numerous longitudinal studies support the finding that location, population increase, and household income are the three greatest determinants of housing costs over time.<sup>7</sup> The key drivers that factor into the cost or rent of a unit of housing are:

- **Location and amenities.** The location of housing and the accessibility of job centers and amenities is one of the primary determinants of rent. Regional traffic, growing preferences for living near downtown amenities, and investments in revitalizing and redeveloping neighborhoods have made the city of Atlanta a more desirable place to live when compared to the suburbs. Within the city itself, high-income renters, who were previously more likely to live in the region’s wealthier northern suburbs, are increasingly choosing neighborhoods near amenities like Ponce City Market and Krog Street Market in central Atlanta. This is consistent with national trends reflecting an increase in the desirability of city living.<sup>8</sup>
- **Number of households and household income.** The net migration of households into Atlanta plays a large part in the overall demand for housing. Increased competition for a fixed number of units (in the short term) in desirable neighborhoods increases rents. As renter households with higher incomes enter the market, they can afford higher rents, further increasing rents in the broader market. Between 2010 and 2017 in the Atlanta region, the number of households earning more than \$50,000 increased by 202,000, and more than 50,000 of those households earned more than \$150,000 annually. In comparison, the number of households earning less than \$50,000 increased by just 20,000.<sup>9</sup>
- **Unit-specific features.** Individual unit factors such as the size or quality of finishing materials play a lesser, but significant, part of housing unit value and rent. While important, this report considers the macroeconomic cost drivers and does not address individual unit characteristics.

### Increasing demand for housing in the urban core

Robust population growth has increased demand for housing across the city – especially in neighborhoods that have access to transit, high-quality schools, employment centers, and other amenities such as parks and retail. Atlanta’s population grew by 16% between 2010 – 2017, compared to only 12% regional growth. This growth demonstrates increases in demand that continue to drive up rents.

Figure 4: City of Atlanta Population Growth 2010 – 2017



<sup>7</sup> A 2017 paper from the Amsterdam Business School and the MIT Center for Real Estate found through a regression model that these three factors have been the most reliable indicators of housing price increase since World War II. The study found that historically, a 1% increase in the working age population has a 2% to 14% effect on housing prices.

<sup>8</sup> Urban Land Institute. “Gen Y and Housing: What they want and where they want it.” 2015

<sup>9</sup> American Communities Survey (ACS) 2010, 2017

### Increasing household wealth for renters

The region's population growth has mostly come from high- and middle-income households that are able to spend more on housing costs – further driving up prices. Between 2010 and 2017, the region lost a net of 50 households earning less than \$35,000 annually, and only gained 31,000 households earning between \$35,000 and \$50,000. In the same period, **the region added 202,000 households earning more than \$50,000**, with more than 50% of new households making more than \$100,000. This influx increased the region's real median income by 9% - from \$60,000 in 2010 to \$65,400 in 2017.<sup>10</sup>

Figure 5: Atlanta Region Households by Income: 2010 – 2017



### 2.3 Limiting New Multifamily Development through Zoning and Historic Economic Disparities

The demand for new apartments is concentrated in a few neighborhoods, exacerbating the impact of Atlanta's increasing renter population on rents in those neighborhoods. This is due to two key factors:

- **Most neighborhoods in south and west Atlanta cannot support new development due to low rents.** Although land in most of south and west Atlanta is inexpensive, prevailing market cannot support new development.
- **Neighborhoods with high rents are overwhelmingly zoned for single-family development.** Outside of a few concentrated dense nodes such as Buckhead, north and east Atlanta are primarily made up of single-family neighborhoods with zoning restrictions that prohibit multifamily development.

These two factors make it challenging for the development community to increase apartment supply and meet growing demand.

<sup>10</sup> ACS 2016, 2010 5-year survey

## Rising rents are limited to selected neighborhoods<sup>11</sup>

At a citywide scale, Atlanta’s significant citywide economic growth obfuscates regional growth trends. Income growth, rent growth, and housing development have largely been concentrated in northern, central, and east Atlanta. This trend is best demonstrated by the examples of the North Atlanta and South Atlanta high school districts profiled below.

### Diverging Outcomes in North and South Atlanta

Historic disparities between neighborhoods and decades of disinvestment have led to a significant gap in the demand for and the ability of the market to supply new housing in the northern half and the southern half of Atlanta. The results of this trend can be seen in the North and South Atlanta high school districts. North Atlanta (defined as the high school district) has a median household income of \$94,000, which has remained steady between 2010 and 2016. Conversely, South Atlanta has median income \$21,000, a 12% decline since 2010.

**These disparities directly impact the feasibility of new multifamily housing.** With a median monthly rent of \$1,300 in 2016 (for all existing rental units), North Atlanta can support the development of new multifamily housing. In contrast, South Atlanta has a median monthly rent of \$790, which cannot support the operation and construction of new apartments.

In order to relieve demand pressure from growing regional housing demand, it is important to increase the feasibility of new housing development in southern and western Atlanta. This requires efforts and investment to improve the services and amenities in these neighborhoods.



Figure 6: Key Demographics and Housing Metrics: North and South Atlanta (2016)

District	Median Income*	Median Rent	Total Housing Units
North Atlanta	\$94k (+0%)	\$1,300 (+19%)	49,000 (+4%)
South Atlanta	\$21k (-12%)	\$790 (+3%)	9,000 (+2%)

\*Changes shown since 2010

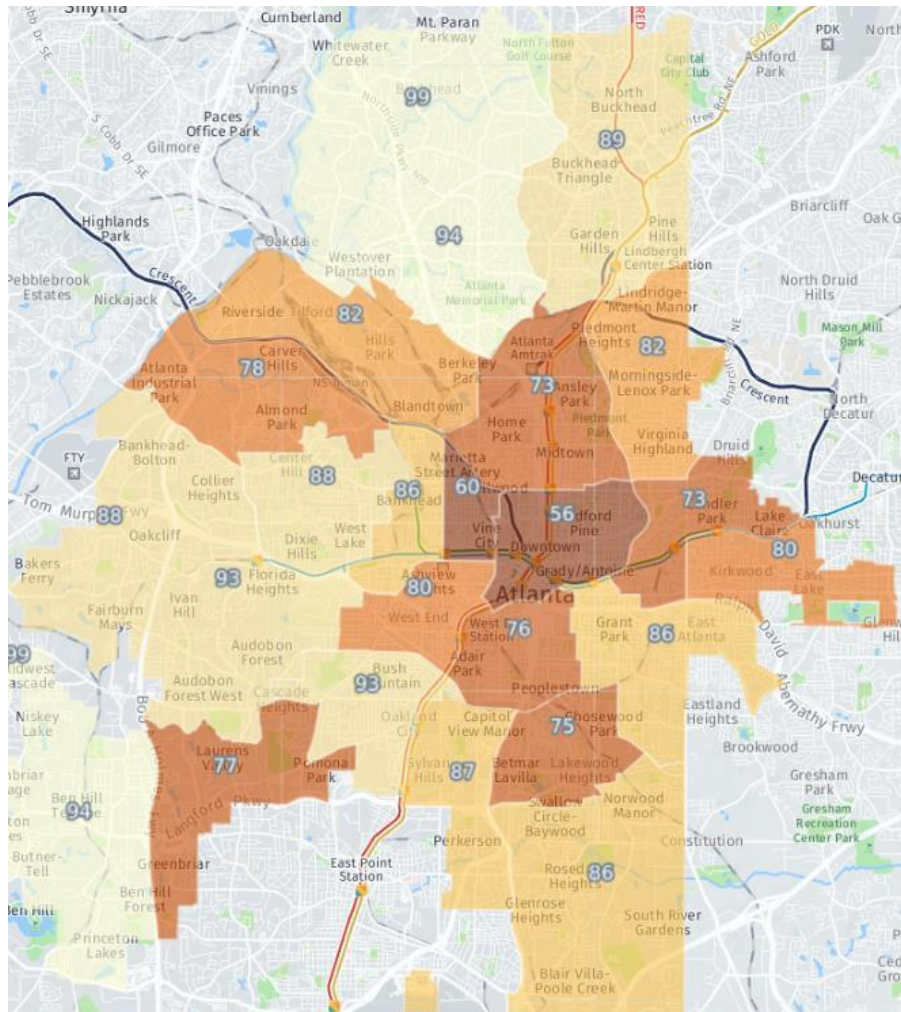
<sup>11</sup> ACS 2016, 2010



## Zoning has limited new multifamily development to a few neighborhoods<sup>12</sup>

Developing new housing in strong markets can moderate the rent increases across the region. While the market rents in the northern and eastern areas of Atlanta support new multifamily construction, development is artificially scarce due to zoning restrictions. More than 89% of all residential land in North Atlanta is zoned for single-family housing only. Even in the denser city center around Midtown and Georgia Tech, 73% of all residential land is zoned exclusively for single-family housing. These restrictions constrict supply by limiting the availability of suitable land parcels.

Figure 7: Single-Family Zoned Land as a Percentage of Total Residential Land

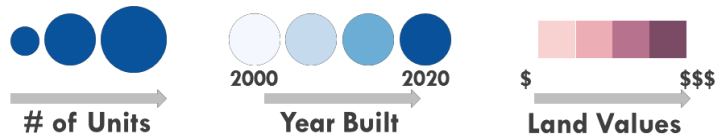
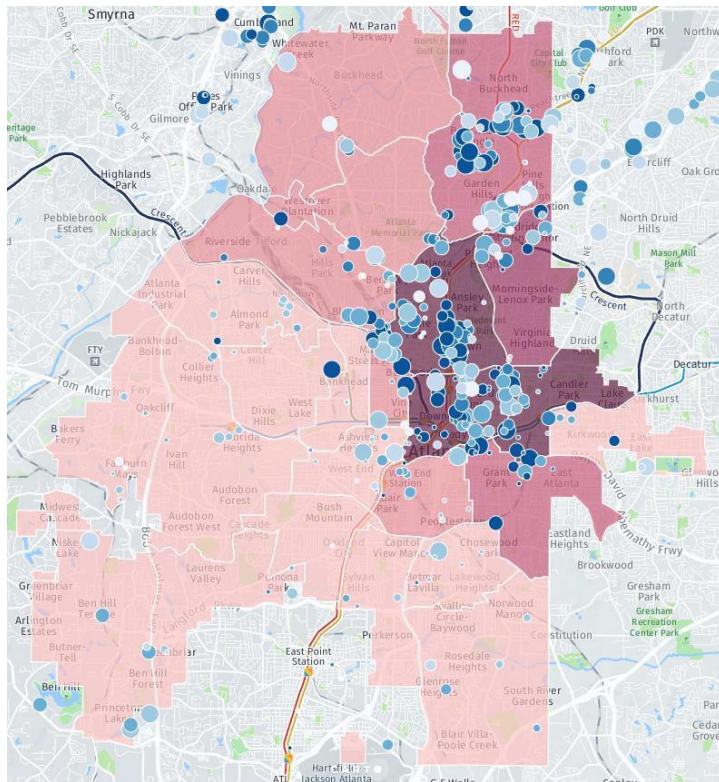


<sup>12</sup> City of Atlanta GIS Data, 2017

## Multifamily Development can only occur where Zoning and Market Feasibility Align

The development of new multifamily housing is limited to the few development nodes where rents can support the cost of new construction and zoning permits multifamily development. As a result, these neighborhoods (Downtown, Midtown, Buckhead, and portions of West and East Atlanta along the BeltLine) have the highest land prices in Atlanta. The rest of the city cannot support new construction, either because of zoning restrictions or a lack of market feasibility. As a result, almost all of Atlanta’s multifamily development is clustered within a few select nodes and easily developable sites in these nodes are increasingly scarce. This contributes to sharp increases in land costs for remaining land. As land becomes more expensive, development costs will rise – requiring higher rents to ensure development feasibility.

Figure 8: Multifamily units built since 2000<sup>13</sup>



### Concentrated and limited development opportunity

Figure 8 shows almost no development of multifamily apartments built since 2000 in the southern half of Atlanta. Although land values are cheap, current market rents in these neighborhoods cannot support new multifamily development.

Conversely, even with high market pressure, multifamily development is excluded from large parts of North and Northeast Atlanta due to restrictive zoning, concentrating development within a few nodes.

<sup>13</sup> CoStar, 2018

## 2.4 Higher Construction Costs have Increased the Rent Required to Support New Development

New apartments in Atlanta face significant supply-side cost drivers – rapid increases in construction and land costs. As rents rise, landowners can command higher sale prices. As land costs increase, developers increase development density to distribute higher land costs across more apartments. Denser development typologies have higher construction costs per unit. As the total per-unit costs of land and construction rise, so do the rents required to support new development.

### Construction costs have increased at twice the rate of inflation<sup>14</sup>

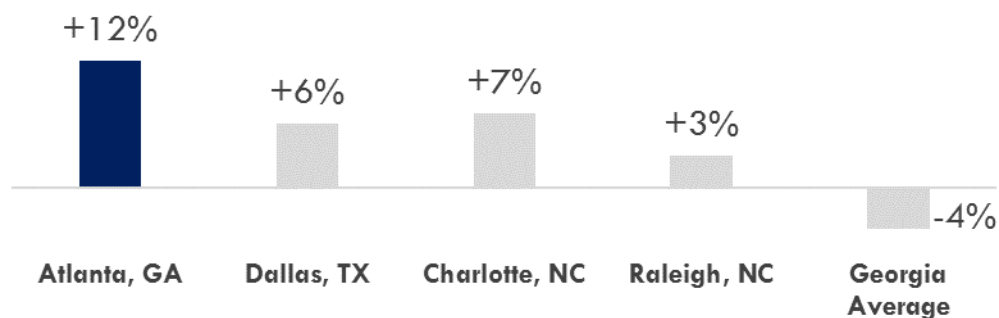
Construction costs have increased dramatically across the country since 2010 because of the increasing cost of materials and rising wages. In Atlanta, construction costs increased 17% since 2010 and more than 80% since 2000. Figure 10 shows the *expected* increase in construction costs if they had increased at the rate of inflation compared to the actual increase. **On average, construction costs have climbed 82% since 2000, almost twice the rate of inflation.**

Figure 9: Observed vs Expected Construction Costs in Atlanta



**Atlanta's construction costs are the highest among comparable southern cities.** In 2018, Atlanta had construction costs 12% higher on average than national benchmarks, compared to only 6% higher in Dallas and 3% in Raleigh. Additionally, on average, the state of Georgia has construction costs 4% lower than the national benchmark.

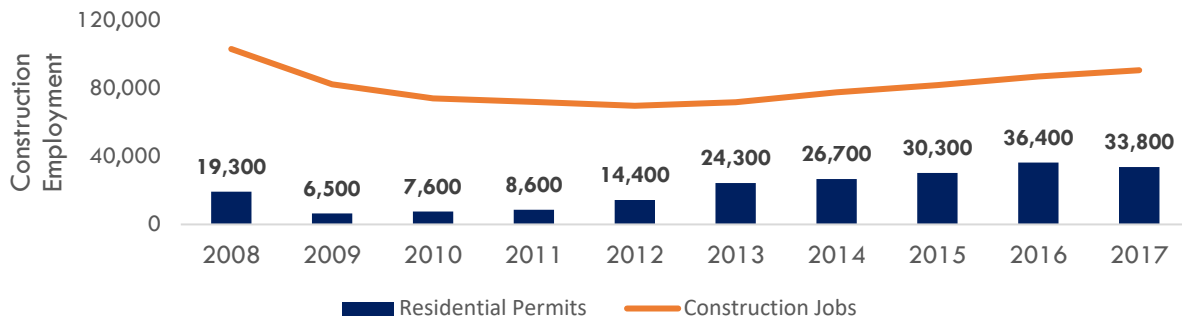
Figure 10: Construction Cost Indexes by City (compared to national benchmarks)



<sup>14</sup> Craftsman Construction Cost Index, 2018

One of the key drivers of Atlanta’s construction costs is a shortage of skilled local construction labor. Before the recession, Atlanta had about 100,000 workers in the construction industry. This workforce reduced by more than 30% by 2010 as the industry shrank and has yet to recover to pre-recession levels to meet the city’s current construction boom.<sup>15</sup>

Figure 11: Construction Labor Shortage: Atlanta MSA 2008 - 2017



### The cost of development increases with density

As the demand for multifamily development continues to rise, landowners continue to raise prices, looking to maximize the return. Developers respond to these higher land prices by increasing the density of projects to spread costs over a larger number of units. However, denser development typologies are *more expensive per unit to construct*.

A new two-bedroom unit in a typical garden apartment on an 11-acre lot with no land costs could rent for approximately \$1,690 per month. As land costs increase, the required rent becomes prohibitive: at \$5M per acre, the same garden apartment unit would require \$3,100 per month to be feasible. In comparison, a two-bedroom unit in a denser wrap apartment on approximately 5 acres can absorb the increased land costs at a lower rent (at \$2,700), even though the construction cost per unit is greater.

Figure 12: Land Costs and Minimum Required Rents:

The minimum rent required for a two-bedroom:	If land cost...			
	\$0 per acre	\$500K per acre	\$3M per acre	\$5M per acre
Garden Apt:	\$1,690	\$1,880	\$2,790	\$3,090
Wrap Apartment	\$2,160	\$2,220	\$2,490	\$2,700

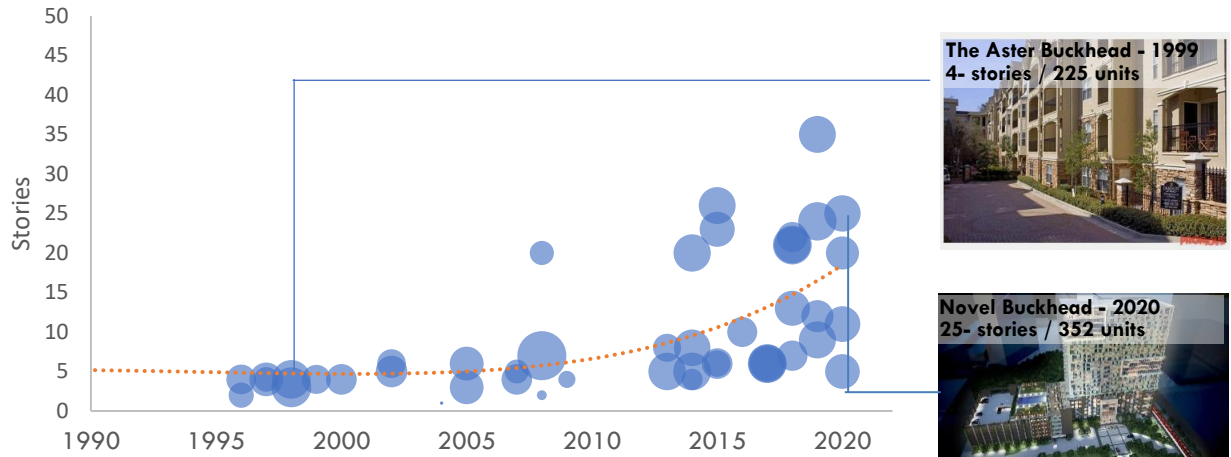
<sup>15</sup> Economic Modeling Systems Institute (EMSI) 2017, HUD User Data, 2017



## Increased land value and density in Atlanta: Buckhead, Midtown, and Old Fourth Ward

As demand increases for multifamily housing in Atlanta, development pressures on Buckhead, Midtown and the Old Fourth Ward drive increasing land values, resulting in a corresponding rise in density and rents.

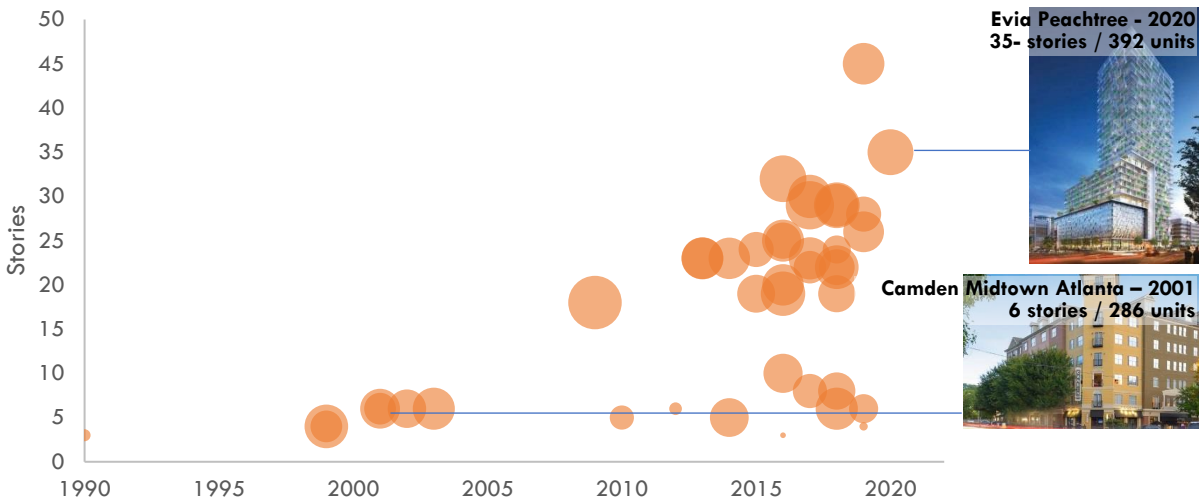
Figure 13: Buckhead Multifamily Production (1990 – 2020)<sup>16</sup>



Typical development in Buckhead between 1995 to 2000 can be characterized by large, low-density, garden-style apartments. These developments typically had surface parking and three to four stories. The Aster Buckhead at 2900 Pharr Court South is emblematic of this type of development, with 225 units in a four-story building, large surface parking lots, and a ground-level pool. As development picked up post-recession, land costs increased resulting in increased density. Projects from the early and mid-2010's are primarily wrap and podium style developments, while projects slated for delivery between 2020 and 2025 include mid-rise and high-rise towers, like the Novel Buckhead (325 units, at 125 units per acre).

<sup>16</sup> CoStar, 2018

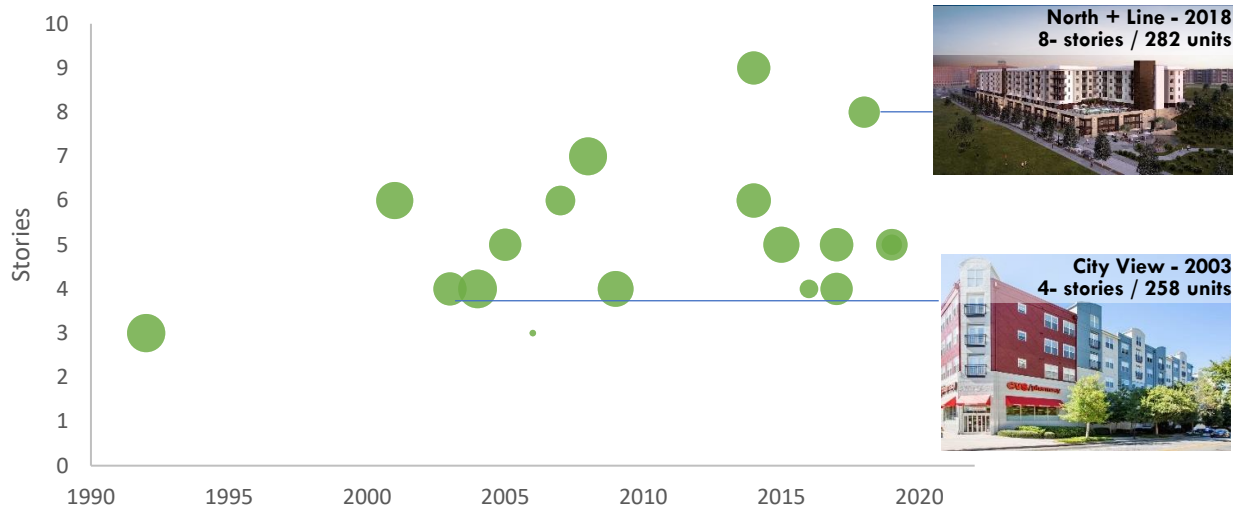
Figure 14: Midtown Multifamily Production (1990 – 2020)<sup>17</sup>



The development of Midtown Atlanta follows a similar trajectory of rapidly increasing density. Around the same time as the development of the garden-style Aster in Buckhead, the 286-unit Camden Midtown was constructed as a podium-style apartment, with five stories of residential above a ground-floor retail deck. As Figure 17 shows, development has intensified since the recession, with 7,700 units delivered between 2010 – 2018 and another 3,700 units in the pipeline projected to be built by 2025.

<sup>17</sup> CoStar, 2017

Figure 15: Old Fourth Ward Multifamily Production (1990 – 2020)<sup>18</sup>



The Old Fourth Ward has seen renewed development pressure since 2000 – the first decade in which the population of this neighborhood increased since 1960, exemplifying a more transitional community.<sup>19</sup> The neighborhood is constricted by zoning and neighborhood opposition to new, denser development. However, construction has continued on a few parcels in the neighborhood at higher densities, from four-story wrap apartments finished in 2003 to a proposed eight-story podium apartment community slated for completion in 2020.

<sup>18</sup> CoStar, 2017

<sup>19</sup> ULI Atlanta, 2012

### 3. AFFORDABLE HOUSING AND THE NEED FOR SUBSIDY

**Rents that are affordable to low- and middle-income households cannot support the cost of construction and operation of new apartments.** A four-person household earning 60% of Atlanta’s area median income (AMI) can afford to spend \$940 per month, 30% of their income, on rent for a two-bedroom apartment. The required rent for a two-bedroom apartment to support a new wrap style apartment is approximately \$2,480, a difference of \$1,540 per month. Market equity investors would lose over \$10M if 20% of the units were rented for \$940 per month, and developers would be unlikely to raise capital – unless they secured low-cost mission-based equity. Incentives to provide affordable housing must fully account for this rent differential if the development community is to provide new affordable apartments.

#### 3.1 Potential Capital Subsidy Required for Affordable Units

Housing units are typically considered affordable if the household spends no more than 30% of their income on housing. Households earning 30%, 60% and 80% of AMI are only able to afford rents that are below the market-rate rent for new development in Atlanta. Figure 16 below shows the capital subsidy required per unit for 20% of the units in a typical 200-unit wrap-style apartment building to be affordable at various income levels. This gap is calculated as the difference between the financing that an affordable unit can support versus the amount required to develop and operate the unit.

Figure 16: Capital Subsidy Required by AMI (200-unit Wrap Apartment)

Affordability Level:	30% AMI	60% AMI	80% AMI	100% AMI
Affordable Rent:	\$470	\$940	\$1,254	\$1,567
Market Rent Required:	\$2,480	\$2,480	\$2,480	\$2,480
Total subsidy required to achieve 16% IRR if 20% of the building is dedicated affordable	\$14M	\$10M	\$7M	\$5M
Per Unit subsidy required	\$353K	\$244K	\$192K	\$134K
Internal Rate of Return (IRR) without subsidy	6.9%	9.0%	10.4%	11.8%

Although revenues are substantially decreased, the development and operating costs of affordable units are similar to equivalent market-rate units. Lower rents result in a gap between the revenues and operating expenses, decreasing the return of the project below the 16% IRR target. For the sample project evaluated in the example above, rents underwritten at every level of dedicated affordability are uncompetitive with other comparable assets that equity investors may choose to invest in. If limited to these rents, new projects would not be built without subsidy.

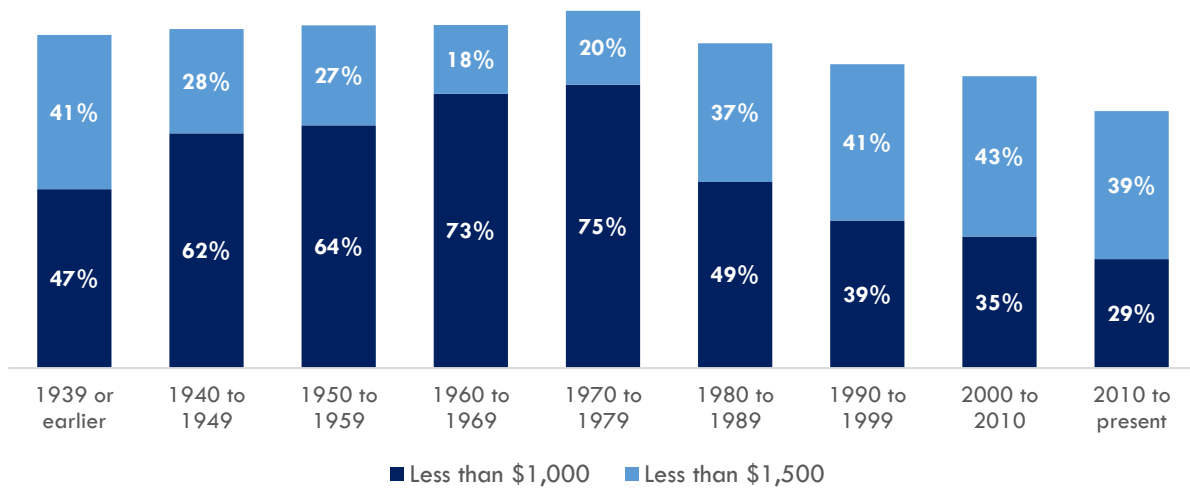
#### 3.2 Newly-constructed Housing is Future Naturally-occurring Affordable Housing

The development of new, market-rate multifamily apartments has a significant role in increasing overall supply and avoiding the displacement of current residents. As these units age, the rents soften (if new units continue to be built) and are more likely to be affordable to lower-income households without public subsidy. As shown in Figure 18, three in four units built in the 1970s in Atlanta rent for less than \$1,000 per

month, compared to only 29% of units built after 2010. A healthy development market today is necessary to ensure that the region has buildings at a variety of rents to accommodate residents of all income levels in the future.

New apartments without public subsidy have always catered to the top of the market to ensure that investors are able to receive a return commensurate with risk. As apartments stabilize, investment risk is reduced, along with the returns and rents required. A healthy development market that allows for building to accommodate new residents can provide units at a variety of rents.

Figure 17: Rent by Decade Unit Built<sup>20</sup>



<sup>20</sup> ACS 2016

## 4. MUNICIPALITY-CONTROLLED COST DRIVERS

While population growth, rising household incomes, and limited areas for feasible apartment development are the primary factors driving increased rents, **municipal policies can have a significant impact on rent.** The region's regulatory environment – from Fulton County's property tax rate to the city of Atlanta's building permit fees – directly affect development or operating costs. These costs directly determine the rents required to make new multifamily projects feasible.

**Real estate stakeholders interviewed noted that the Atlanta region is relatively supportive of development.** With few exceptions, municipal policies in the region do not substantially hinder new apartment construction, except in wealthier neighborhoods in the region – which stakeholders noted was common in most American cities. However, stakeholders working in multiple markets across the nation noted two unique factors that caused significant frustration for developers in the region:

- Significant delays in plan review and property inspections, and
- Fulton County aggressively increasing the assessed value and taxes for apartments after new development occurs nearby.

Stakeholders also noted the practice of codifying anti-development biases into the building code in many of the suburbs north of Atlanta. These changes to the building code appear designed to implicitly prevent the development of apartments by substantially raising development costs.

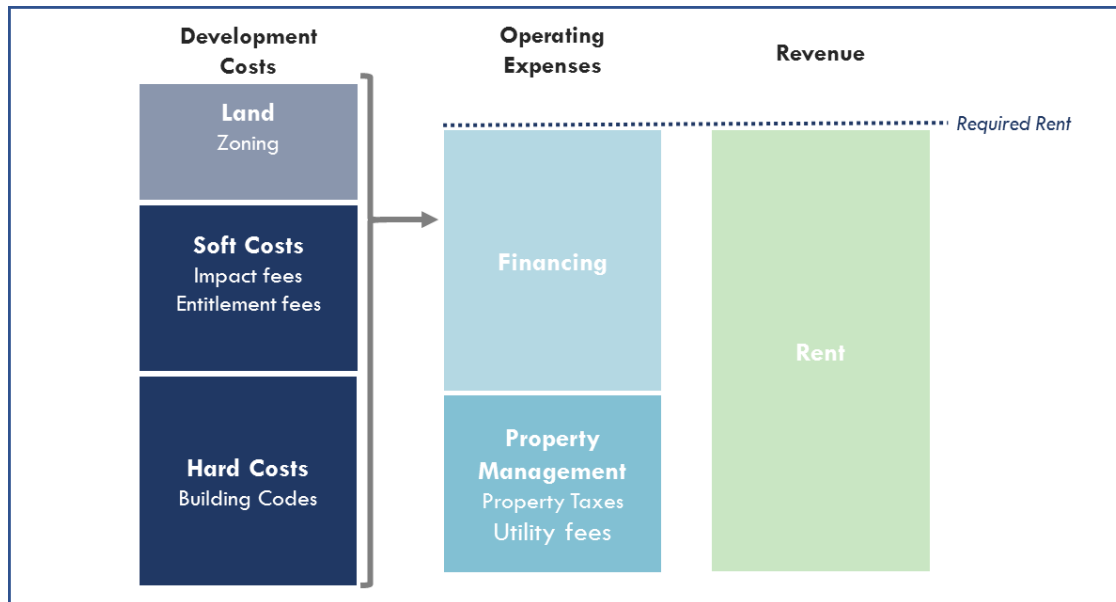
Many stakeholders expressed concerns about the city of Atlanta's new BeltLine inclusionary zoning policy. This policy was not evaluated in this report because it was too new to observe verifiable impacts to the cost, production, or demand of housing in the area.



## 4.1 The Influence of Municipalities on Development and Operating Costs

The regulatory environment created by municipalities and public agencies affect the development and operating costs of new housing at all stages of a project, from initial design to stabilized operation.

Figure 18: Municipal cost drivers: Apartment Development Framework



### Hard Costs

Municipalities impact hard costs by setting **building codes** – standards and requirements that new buildings must meet to receive construction permits. These codes are designed to ensure the safety and habitability of a building and the residents living within it. In Georgia, the minimum standards all municipalities must enforce are set by the International Code Council to regulate building, fire, fuel gas, mechanical, and other codes.

Some communities have adopted standards more stringent than these national standards, which significantly increases the cost of construction. Recent regulations in Sandy Springs and Dunwoody require all multifamily housing that exceeds three stories to be constructed out of steel and masonry rather than wood, which has traditionally been used for construction up to four to five stories. A hypothetical wrap-style apartment built out of wood costs about \$200 per square foot to construct. Transitioning to steel-frame construction would increase construction costs by at least 34% and increase the minimum monthly rent by more than \$1,000 (from an estimated \$2,480 to \$3,550). This jump in costs and subsequent required rent would make the project infeasible in most markets. The state of Georgia has intervened with House Bill 876 that passed in the 2018 legislative session and that prevents cities from prohibiting wood-frame construction in the future. This bill may invalidate the existing ordinances.

### Soft Costs

Municipalities can impact soft costs by increasing the number of reports or studies required from proposed developments, increasing entitlement and building fees, delaying the plan review period, and imposing impact fees on new apartment development.

### ***Impact fees***

Impact fees are imposed on new development to pay for the cost of providing public services. In Georgia, municipalities are permitted to collect these fees through the 1990 Georgia Development Impact Fee Act (DIFA). The act permits the collection of fees for transportation facilities, parks/open space, public safety, libraries, water supply, wastewater collection, and storm water collection. Fees must be approved by the municipality through an ordinance and earmarked for specific projects in the municipality's capital improvement plan. The use of impact fees is often necessary to ensure that cities have the funds to provide for new infrastructure needs. However, like building codes, municipalities often use these fees as deterrents for new development. In 2016, Sandy Springs increased their impact fees per unit from \$1,254 to \$6,885 – a 450% increase. The table below summarizes the impact fees of municipalities around the Atlanta region (as of 2017).

Figure 19: Impact Fees by Jurisdiction and Resulting Impact on Rent

<b>Municipality</b>	<b>Impact Fees (per unit)</b>
<b>Atlanta</b>	\$1,544
<b>Sandy Springs (pre-2016)</b>	\$1,254
<b>Sandy Springs (post-2016)</b>	\$6,855
<b>Roswell</b>	\$2,405
<b>Alpharetta</b>	\$6,495
<b>Forsyth County</b>	\$552
<b>Cherokee County</b>	\$1,495

### ***Entitlement and building fees***

Municipalities set the permit costs to review proposed apartment projects. These payments reimburse the municipality for the staff time spent on each permit to ensure that the proposed project meets all required standards and regulations. The fees also facilitate a public feedback and comment period. In Atlanta, the cost of entitlements for a 200-unit wrap apartment with a total development cost of \$71 million is approximately \$200,000 for the occupancy permit and almost \$500,000 for the building permit fee. These fees result in an increase of approximately \$10 per month for a two-bedroom apartment. Although these fees seem nominal, the effect adds up when considered in the context of all municipal policies impacting development costs.

Municipalities should consider how proposed new fees directly affect the cost to supply new housing and should limit these fees to efficiently review project plans.

### ***Plan review period***

In addition to the entitlement fees and building fees, the period it takes to review and approve plans represents a significant cost to developers. Each month a building is delayed from opening represents lost rent revenues for the development team as well as added financing costs. Stakeholders interviewed stated that delays in the plan review period were one of their most significant drivers of project delays and added costs, while noting that the Atlanta Planning Department is working to address these issues.

Challenges in Atlanta are driven by inspections necessary for the issuance of a certificate of occupancy. The certificate is needed before units may be rented in a building. Stakeholders stated that inspectors are

objecting to items installed in accordance with approved plans due to updated concerns about safety, resulting in potentially costly reconstruction. Interviewees were unhappy with the delays and the seemingly arbitrary nature of requiring changes to items constructed in accordance with plans approved by the City, rather than the actual cost of the changes themselves. Stakeholders estimated that the cost of the construction revisions may exceed \$200,000.

In addition to the costs of these mandatory changes, many developers observed that inspectors were not able to inspect a full building within the allotted time due to competing inspections scheduled for the same day. Developers also noted that inspectors were not available multiple days in a row for large projects, extending the full building inspection over several weeks to several months to accommodate.

Although the added development costs from inspection-related delays do not significantly influence the rents required to make development feasible, they should still be minimized to limit costs as much as possible.

### **Operating Costs – Taxes<sup>21</sup>**

Real estate taxes are a significant operating cost and increases can cause building operators to raise rents. Stakeholders state that Fulton County significantly increases the assessed value and real estate taxes of existing apartments when new development occurs nearby. **This places significant pressure on property owners to raise rents to cope with increased operating costs.**

After a property has been built and an initial assessment established, the county assessor may substantially change the assessed value based on sales data of recently completed units and nearby development. These increases have been aggressive in Fulton County, resulting in property taxes for some developments increasing by 15% to 30% in a year.

**For the prototypical 200-unit wrap apartment, a tax increase of 15% annually would increase rents starting at \$2,700 for a two-bedroom apartment by \$220 (9%).** The variability of these taxes and potential for future tax increase may also cause operators to increase rents to hedge against risks of another increase.

**Increasing assessment values are especially concerning for operators of older market-rate affordable housing.** These older properties typically provide units at lower rents without requiring subsidy. As taxes on these properties increase due to nearby development raising values, operators are pressured to sell the property for conversion to higher-rent apartments or condominiums. Municipalities should work with the Fulton County Assessor's office to examine how reassessments of older and aging properties impact the supply of affordable housing and to consider tax abatement options for these units.

---

<sup>21</sup> Fulton County Tax Assessor

## 4.2 The Impact of Potential Policies on Rent

The following examples demonstrate how rents for apartments increase in response to specific policies that increase development or operating costs. These examples showcase cost drivers that impact projects in the Atlanta region, as well as potential pitfalls seen in other regions across the country that Atlanta should avoid. This analysis uses a proforma of typical development styles in Atlanta to estimate the amount that rents would need increase to maintain a constant financial return in response to a policy increasing development or operating costs. The report evaluates the following six policies:

1. Tax increase
2. Project delay and added construction costs
3. Impact fee increase
4. Hard cost increase
5. Community exaction
6. Loss of units to secure Neighborhood Planning Unit (NPU) approval

In isolation, each of these cost drivers may seem inconsequential to rents and affordability. However, the cumulative impact can be substantial and might significantly exacerbate the housing affordability crisis.

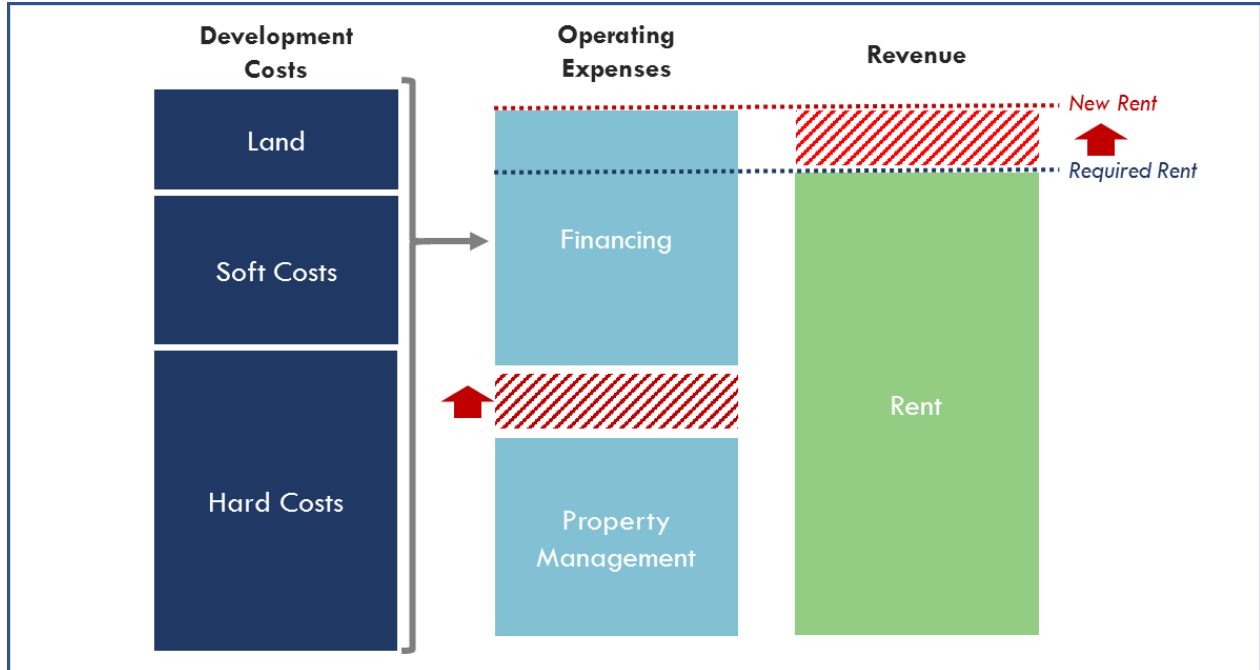
**The analysis highlights the reason that municipalities should consider housing affordability and cost implications for apartment residents when evaluating the impact of any proposed policies.**

*See Appendix A for the assumptions and details of the projects evaluated.*

### Increasing real estate taxes by 10% annually

Stakeholders interviewed reported annual tax increases of 15% - 30% in Fulton County. These increases in taxes translate to increased property management expenses for apartment operators and have a significant impact on the overall minimum rent required for the four prototypical projects used in the evaluation. A conservative increase of 10% annually results in a 4 - 5% increase in monthly rents to maintain a 16% internal rate-of-return for the property.

Figure 20: Property Tax Increase

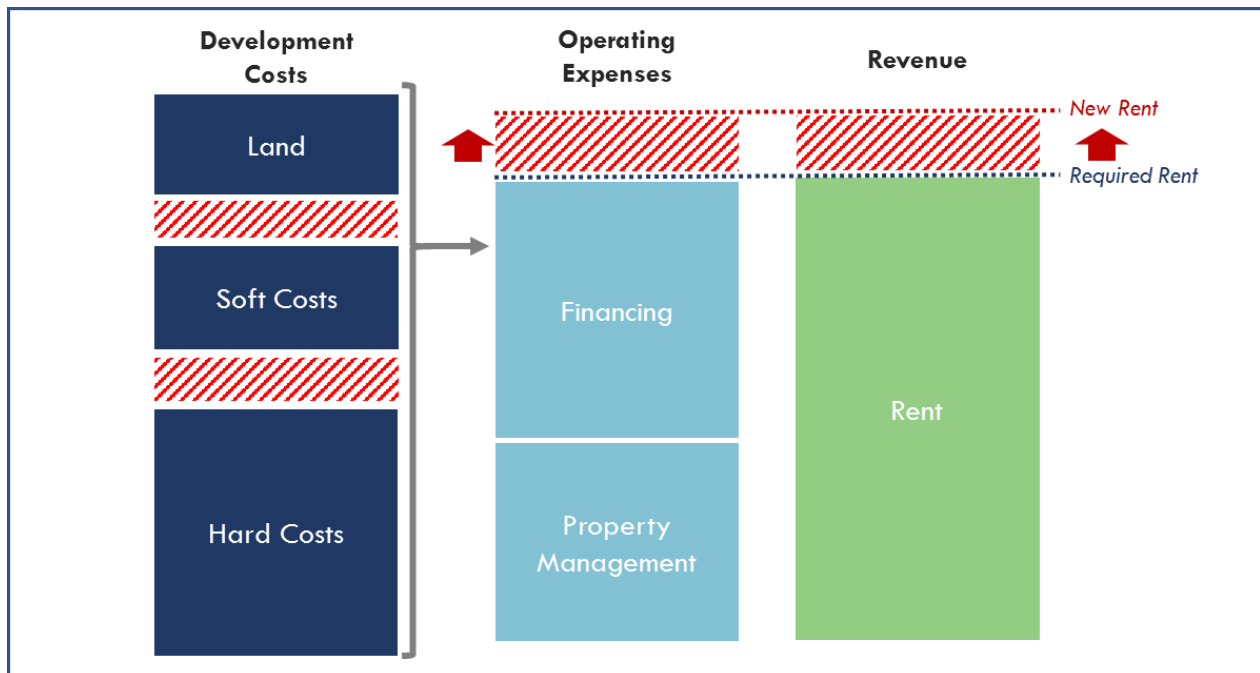


Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$90	4.8%	\$1,980
Wrap	\$2,480	\$110	4.4%	\$2,590
Podium	\$2,740	\$130	4.7%	\$2,870
High-rise	\$3,230	\$130	4.0%	\$3,360

### Six-month delay due to permit review and 5% increase in construction costs

**A six-month delay in the project opening due to a lengthy permitting period and a 5% increase in construction costs can require rents increase between \$40 - \$70 per month to maintain constant returns.** This scenario is based on the experience of developers in the region who have reported considerable delays in securing permit approvals and seeing construction costs rise substantially during this period. These delays are often avoidable by having consistent inspection standards and allowing inspectors enough time to inspect the whole property in one visit. The increase in construction costs affect both hard and soft costs, while the project delay increases soft costs and can also impact financing costs.

Figure 21: Project Delay and Construction Cost Increase



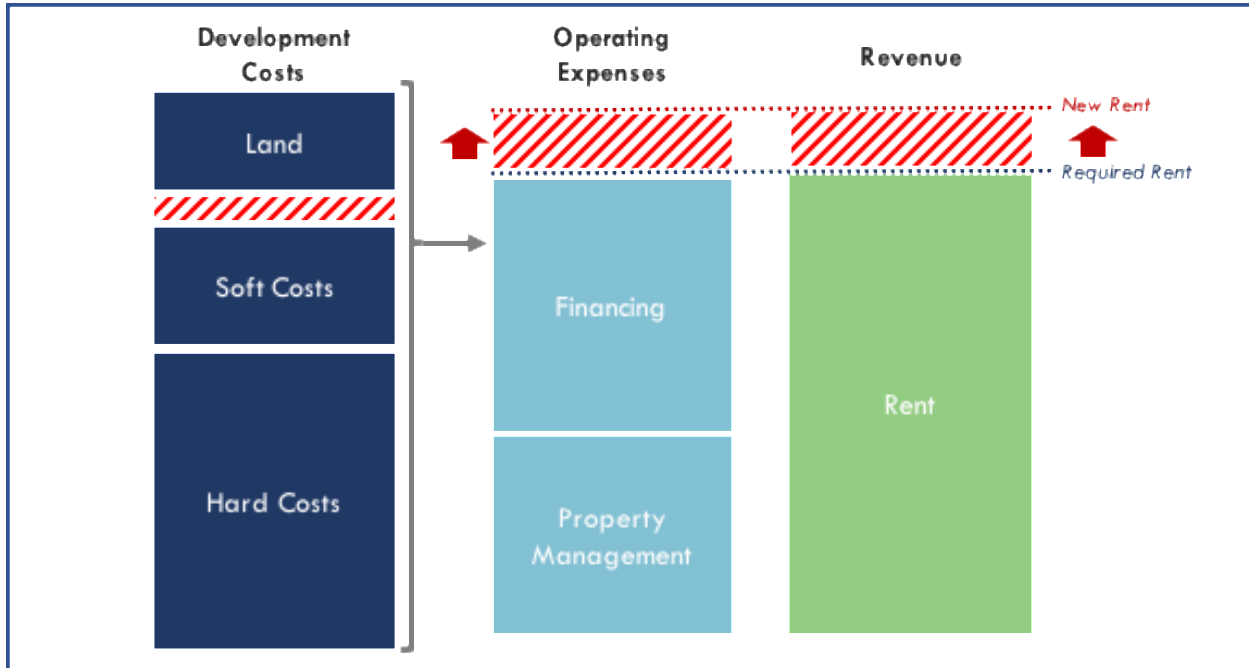
Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$40	2.1%	\$1,930
Wrap	\$2,480	\$60	2.4%	\$2,540
Podium	\$2,740	\$60	2.2%	\$2,800
High-rise	\$3,230	\$70	2.2%	\$3,300



### Increase in impact fee by \$5,000

Increasing impact fees in Atlanta by \$5,000 would increase monthly rents by \$10 - \$40. If the city of Atlanta follows Sandy Springs by substantially increasing impact fees, it could increase rents required to make a podium-style development feasible by about \$20 per month.

Figure 22: Increase in Impact Fee

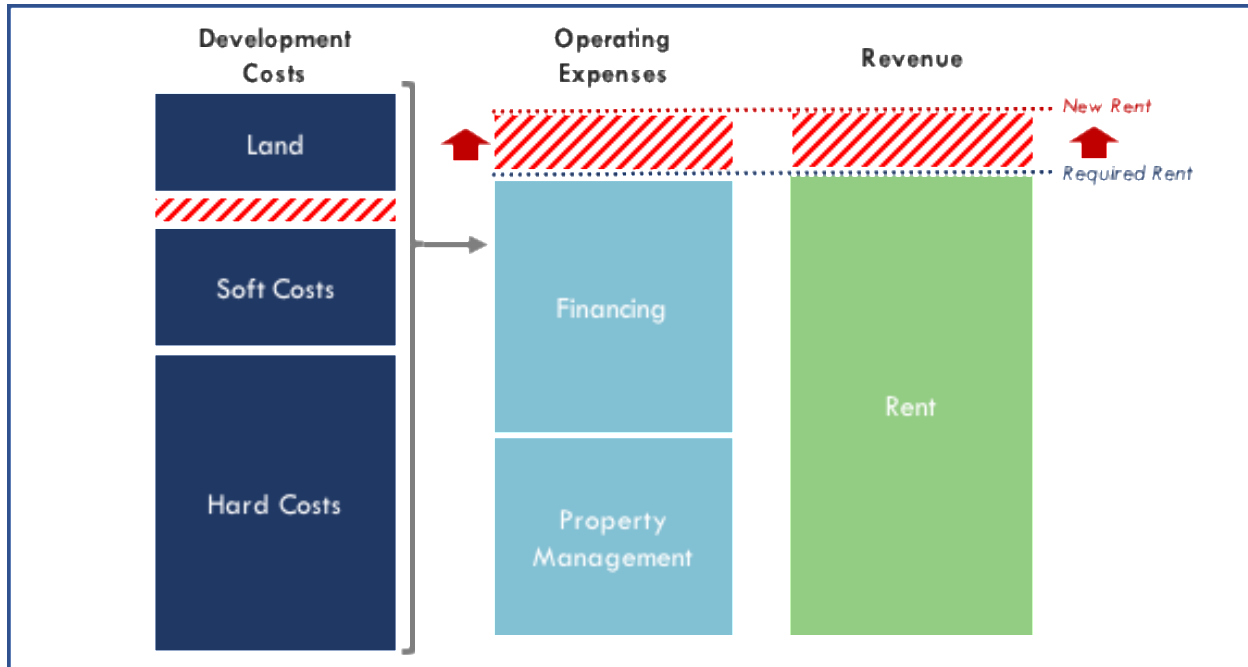


Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$40	2.1%	\$1,930
Wrap	\$2,480	\$10	0.4%	\$2,490
Podium	\$2,740	\$20	0.7%	\$2,760
High-rise	\$3,230	\$10	0.3%	\$3,240

### Community Exaction of \$600,000

Community opposition to a proposed project significantly influences the likelihood that the zoning review board or planning commission will deny required entitlements, giving substantial power to neighborhood planning units (NPU). To secure the approval of neighborhood groups, projects often offer community exactions – benefits to the community in exchange for political support. A community exaction of \$600,000 for an amenity such as a public space or park would require rents to increase by \$10 - \$30 per month to maintain constant returns.

Figure 23: Community Exaction

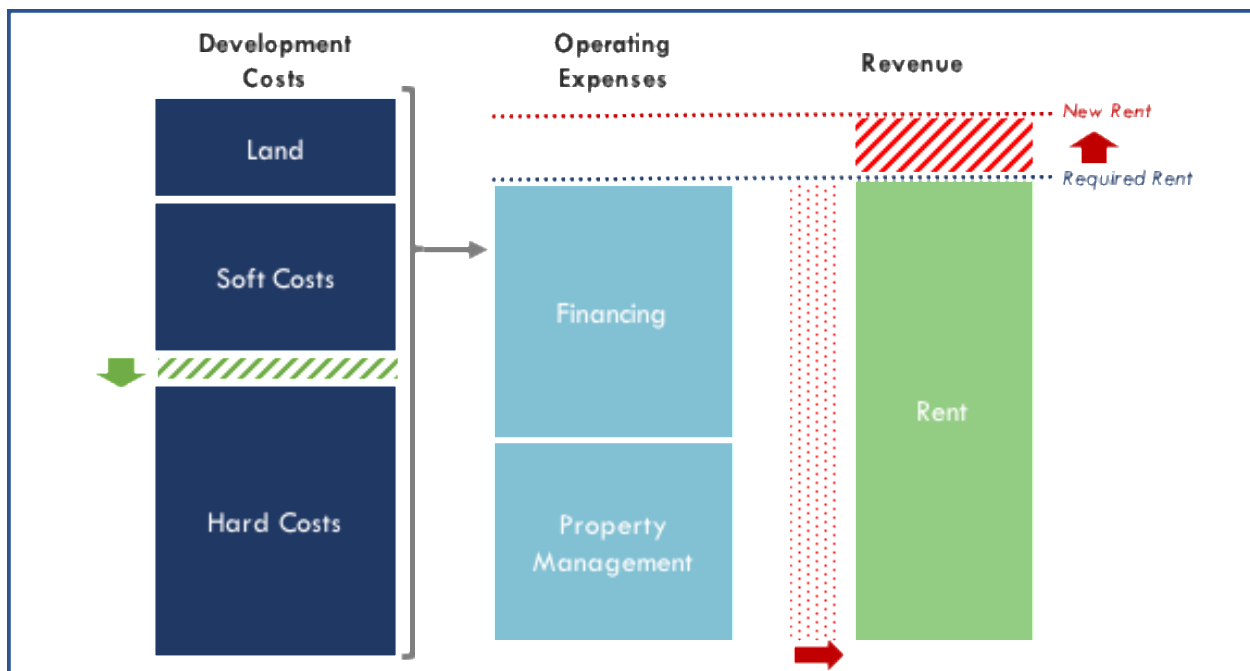


Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$30	1.6%	\$1,920
Wrap	\$2,480	\$10	0.4%	\$2,490
Podium	\$2,740	\$10	0.4%	\$2,750
High-rise	\$3,230	<\$10		\$3,230

## Loss of 30 Units

**Neighborhoods frequently object to the size and mass of new apartment development.** Developers often agree to reduce the size of the project in order to secure support from neighbors and receive the required entitlements and permits. Reducing a 200-unit wrap project by 30 units, or 15%, would require rents to increase by approximately \$60 per month to make the project feasible. The loss of apartments reduces the total supply of housing and directly increases the cost per unit – requiring the revenue produced by each unit to increase and offsetting any savings from the reduction in construction costs resulting from building a smaller structure. Cities should carefully review zoning to ensure that it allows for areas for apartment communities by-right – and that the design review process does consistently result in reductions in size for proposed projects.

Figure 24: Loss of 30 Units

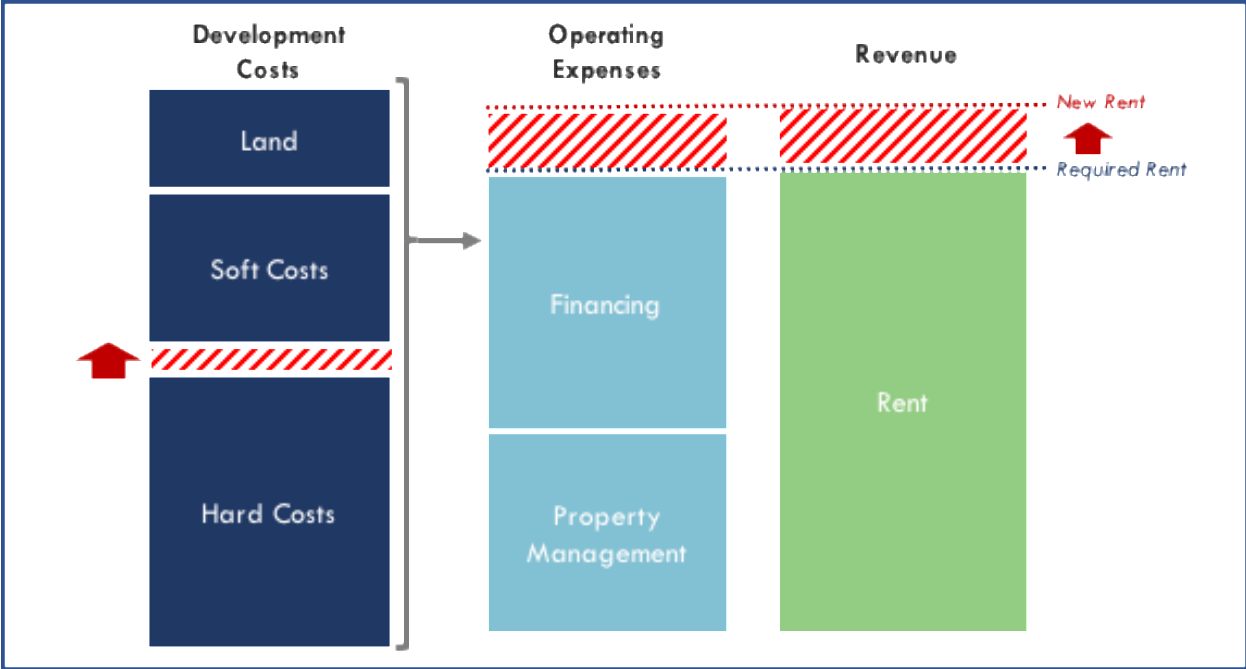


Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$40	2.1%	\$1,930
Wrap	\$2,480	\$60	2.4%	\$2,540
Podium	\$2,740	\$30	1.1%	\$2,770
High-rise	\$3,230	\$80	2.5%	\$3,310

**10% increase in hard costs**

Municipalities can require that new developments construct additional improvements to address issues such as storm water runoff or traffic impacts. A large underground storm water retention facility or a new traffic control signal can increase costs up to 10%. Adding an additional 10% in hard costs to the prototypical wrap development requires rents increase for two-bedroom units by \$140 per month to make the project feasible. Any policy or initiative that adds additional hard costs to housing development operates in a similar manner, resulting in an increase in the required revenue to cover the increased financing costs. Municipal policies that increase construction costs can be especially severe, as construction costs have increased rapidly since 2010. Developers often underwrite increases up to 1.5% per month in construction costs.

Figure 25: 10% Increase in Hard Costs

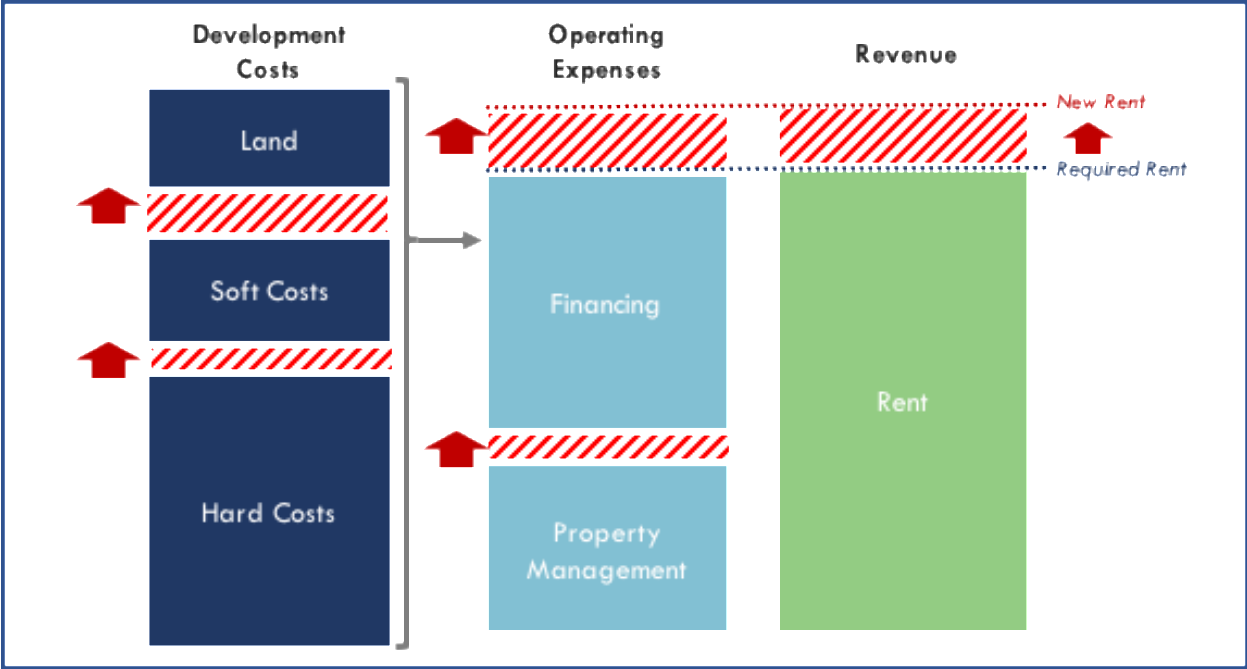


Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$130	6.9%	\$2,020
Wrap	\$2,480	\$140	5.6%	\$2,620
Podium	\$2,740	\$160	5.8%	\$2,900
High-rise	\$3,230	\$190	5.9%	\$3,420

### 4.3 The Cumulative Impact of Municipal Policies

Although these policies may seem to have a small individual impact, the costs often compound and substantially increase rents. If a project faced all of the cost increases discussed in Section 4.2, rents may need to increase by 18% – 20% to maintain a constant return. This is the difference between a new wrap-style apartment being affordable to a two-person household earning about \$90,000 annually, to only being affordable to a household making more than \$105,000. **If housing affordability is a public goal, municipalities must consider the effect of these collective municipal cost drivers on overall affordability.**

Figure 26: Cumulative Impact of Policies



Typology	Base Rent	Increase	% Increase	New Rent
Garden Apartment	\$1,890	\$380	20.1%	\$2,270
Wrap	\$2,480	\$460	18.5%	\$2,940
Podium	\$2,740	\$510	18.6%	\$3,250
High-rise	\$3,230	\$580	18.0%	\$3,810

#### 4.4 By-right Development vs Discretionary Approval

Municipalities can have the greatest effect on affordability by allowing developers to grow the supply of housing in accordance with demand, to help stabilize and lower rents through **by-right development**. By-right development improves affordability by lowering the cost of development and increasing the supply of housing. Faster, more predictable approval processes lower risk and the amount of investment required, reducing overall development costs. Creating new housing also reduces the competition between new and long-time residents for existing housing that drives up rents and can harm affordability.

Most apartment projects in Atlanta require long discretionary approval processes – for example, if they fall in a special zoning district, are larger than a certain size, or require a special use permit. The discretionary approval process includes significant neighborhood input that lengthens the development process, increases costs, and introduces the risk that elected officials will reject the proposal. Most of the Atlanta region is zoned for single-family development, limiting the areas in which multifamily development can proceed by-right and with minimal delay.<sup>22</sup>

While discretionary approvals and plan reviews enable essential public input to large changes to a city, the increased risk reduces the overall supply of new housing. Projects can often be stuck in a long entitlement process to up-zone parcels intended for multifamily development, and neighborhood opposition to increased density is generally most pronounced in neighborhoods with the highest demand for new housing. Development experts report frequently that they reduce the density of proposed projects in response to neighborhood opposition. This loss of units reduces overall housing supply and increases the rent required to make new development feasible.

By reducing project risk, by-right development will contribute to an increase in supply and reduced costs. Using the method described in the Bay Area Council Economic Institute's 2018 study<sup>23</sup>, we estimated the responsiveness of price to changing housing supply. Our analysis shows that a 1% increase in Atlanta's housing supply would reduce housing costs by 0.64%. Using the standard that to be affordable housing should cost less than 30% of a household's gross income, **each 1% increase in Atlanta's housing supply might make housing affordable in Atlanta for an additional 700 households.**

---

<sup>22</sup> See Appendix C for schematic development maps for Atlanta and Sandy Springs

<sup>23</sup> A 2018 study by the Bay Area Council Economic Institute ("Solving the Housing Affordability Crisis") evaluated the effect of various housing policies based on the number of households for which housing would become affordable as a result of the policy, using a 30% housing cost burden assumption. The report evaluated the responsiveness of price to changing the supply through policy. Using a similar method, HR&A evaluated the number of households for which housing would become affordable, given a 1% increase in the overall supply in Atlanta.



## 5. KEY TAKEAWAYS

Based on the analysis of housing cost drivers in the Atlanta region, the city of Atlanta and neighboring municipalities should consider the following steps to partner with the development community to ensure that the region remains affordable for all families:

- 1) Understand and evaluate the *cumulative impact* of all municipal policies on rent. City councils should study the impact of new municipal policies on area rents before taking action.
- 2) Expand by-right zoning for apartments – especially in parts of the region that are experiencing the most growth.
- 3) Streamline and reform permitting processes and approvals to reduce lengthy delays.
- 4) Commit local and external resources to preserve existing affordable housing and to subsidize the creation of new affordable housing.
- 5) Consider tax incentives that provide incentives in exchange for rents at a certain affordability level and focuses on increasing the overall supply of housing to reduce overall demand pressure.

### Evaluate the cumulative impact of municipal policies on rent

As Section 4 demonstrates, when municipal policies are layered together, they can significantly raise the rent required to expand the supply of multifamily housing and can hurt affordability for middle-income households. A series of small fees levied by different municipal agencies and increases in tax assessments added up to cumulative increases of 18 – 20%.

The city of Atlanta requires an *affordable housing impact statement* that provides estimates of the net change in affordable units as a result of a project. Municipalities should consider a similar approach for new policies that responds to two key questions:

- What is the **direct result** of this policy on future rents? How would this policy shift change required rents for units currently in the pipeline?
- What is the **indirect effect** on overall housing affordability? How will this policy change the number of households in the region that can afford an apartment?

Answering these questions will enable municipal officials to make informed decisions about taxes, fees, and other cost drivers that impact housing affordability goals.

### Expand by-right zoning for apartment communities

The region has significant potential to increase the amount of land zoned for apartments to increase the supply of new housing, reduce development costs and meet rising demand. As the Atlanta region continues to be an attractive place to live and work, population growth will continue. Apartments offer a cost-effective and sustainable opportunity for the region to meet this demand.

Increasing by-right development can prevent displacement of existing residents from market-rate affordable housing. On average, the city of Atlanta delivered 4,500 new apartments between 2000 and

2017. A 25% increase from this average<sup>24</sup> could expand affordability for more than 800 households – including more than 100 households earning less than \$30,000 annually.

Municipalities should especially focus on areas where housing costs are higher than average. Comprehensive plan and zoning updates should evaluate where housing costs exceed the regional average to determine where the demand for housing exceeds supply. Within these neighborhoods, sites should be targeted for additional density.

### **Streamline and reform permitting processes to reduce delays**

Municipalities across the region should streamline and reform permitting processes and issuing certificates of occupancy. Development experts report that securing these approvals is a major factor increasing the cost and speed of development. These delays in completing final inspections and imprecise building requirements do not appear to result in any public benefit.

**The development approval process should be predictable.** Predictability reduces the cost of development by reducing project risk and allows developers to focus on projects that will be approved, increasing overall supply.

**A streamlined approval process should limit discretionary reviews.** Projects that require minor variances or no zoning or entitlement changes should be subject to *administrative approval* by staff, rather than go through a larger review process.

### **Commit local and external resources to preserve existing affordable housing and subsidize new affordable housing**

Dedicated affordable housing requires public subsidy and commitment. To accommodate population growth without displacement, the region needs to identify resources dedicated to affordable housing. In Atlanta, Mayor Bottom's \$1B housing pledge is a positive step towards making a public commitment towards affordability.

Strategies to generate this funding should be subject to the same *housing affordability impact statement* previously proposed. For example, increasing property taxes on apartments to pay for housing affordability might be counter-productive, as the increase in taxes may reduce affordability for more households than the potential revenue could provide.

### **Consider tax incentives to produce affordable units and increase overall supply**

Municipalities should consider offering **property tax incentives** in return for affordability. Tax incentives impact property management expenses directly by reducing the annual property tax paid by an owner. Lower property management expenses may also help underwrite more favorable financing terms.

---

<sup>24</sup> Ibid

A reduction in these costs leads to a lower amount of operating expenses required, and a lower required rent to make the project viable. Policies that require affordability as a condition of tax incentive must ensure that the reduction in rent can be offset by the savings in operating expenses.

In stronger neighborhoods and markets, municipalities might reduce property taxes in exchange for a commensurate reduction in rents. Each dollar of tax abatement provided can result in an additional dollar of affordability per unit. In weaker markets, providing a property tax incentive to encourage construction of new apartments can have an indirect impact on affordability by increasing overall supply at rental rates that would not otherwise make the project feasible.

## Appendix A: Financial analysis key assumptions

Product Type	Garden Style				
Unlevered IRR	10.24%				
Levered IRR	16.03%				
Category	Inputs				
<b>Construction Period Costs</b>					
Construction Period	24 Months				
Construction Loan to Cost	65%				
Construction Interest Rate	5.00%				
Lease-Up Period	8 Months				
Stabilization	32 Months				
Construction lender's points	1%				
Construction loan closing costs	1%				
Net / Gross SF Ratio	79%				
Hard Costs	\$115/SF				
Soft Costs	\$23/SF				
Land Costs (GSF)	\$25/SF				
Developer Fee	3%				
<b>NOI</b>					
<b>Potential Gross Income</b>	<b>Units</b>	<b>Avg SF</b>	<b>Total</b>	<b>Total PGI</b>	<b>Rent Escalation</b>
Studio	x 0	0 SF	0 SF	\$0	3.0%
1 BR	x 0	0 SF	0 SF	\$0	3.0%
2 BR	x 200	1,100 SF	220,000 SF	\$377,314	3.0%
3 BR	x 0	0 SF	0 SF	\$0	3.0%
<b>Subtotal</b>				<b>\$4,527,772</b>	
Less Vacancy	7.0%			(\$316,944)	
<b>Effective Gross Income (EGI)</b>				<b>\$4,210,828</b>	
Less Opex	x		200	(\$792,400)	3.0%
Less Utilities	x		200	\$0	3.0%
Less Taxes	x		200	(\$520,000)	3.0%
<b>NOI</b>				<b>\$2,898,428</b>	
<b>Cap Ex Contingency</b>	3.0%				
<b>Exit Year</b>					
Exit Month	96 Months				
Exit Cap Rate	5.25%				
<b>Gross Proceeds</b>					
Cost of Sale	1%				
<b>Cashflow before perm. Loan</b>					
Unlevered IRR	10.24%				
<b>1st Mortgage - Fees</b>					
Lender's Points	1.0%				
Loan Closing Costs	1.0%				
<b>1st Mortgage Calculations</b>					
LTV	70%				
DSCR	1.2				
Term	30 years				
NOI at Stabilized Year	\$3,074,943				
Rev value at Issuance	\$58,570,334				
Initial Bal. Based on DSCR	\$38,293,030				
Initial Bal. Based on LTV	\$40,999,234				
Beginning Balance	\$38,293,030				
Principal					
Perm Loan Interest Rate	5.25%				
<b>Levered IRR</b>	<b>16.03%</b>				

<b>Product Type</b>	<b>Wrap</b>
<b>Unlevered IRR</b>	<b>10.60%</b>
<b>Levered IRR</b>	<b>15.99%</b>

Category	Inputs
----------	--------

<b>Construction Period Costs</b>	
Construction Period	24 Months
Construction Loan to Cost	65%
Construction Interest Rate	4.75%
Lease-Up Period	8 Months
Stabilization	32 Months
Construction lender's points	1%
Construction loan closing costs	1%
Net / Gross SF Ratio	79%
Hard Costs	\$165/SF
Soft Costs	\$33/SF
Land Costs (GSF)	\$40/SF
Developer Fee	3%

**NOI**

Potential Gross Income		Units	Avg SF	Total	Total PGI	Rent Escalation
Studio	\$0.00/SF	x 0	550 SF	0 SF	\$0	3.0%
1 BR	\$0.00/SF	x 0	0 SF	0 SF	\$0	3.0%
2 BR	\$2.26/SF	x 200	1,100 SF	220,000 SF	\$496,311	3.0%
3 BR	\$0.00/SF	x 0	0 SF	0 SF	\$0	3.0%

<b>Subtotal</b>					<b>\$5,955,730</b>	
Less Vacancy	7.0%				(\$416,901)	
<b>Effective Gross Income (EGI)</b>					<b>\$5,538,829</b>	
Less Opex	\$4,197	x		200	(\$839,400)	3.0%
Less Utilities	\$0	x		200	\$0	3.0%
Less Taxes	\$2,900	x		200	(\$580,000)	3.0%
<b>NOI</b>					<b>\$4,119,429</b>	

<b>Cap Ex Contingency</b>	3.0%
---------------------------	------

**Exit Year**

Exit Month	96 Months
Exit Cap Rate	4.92%

**Gross Proceeds**

Less Cost of Sale	1%
-------------------	----

**Cashflow before perm. Loan**

Unlevered IRR	10.60%
---------------	--------

**1st Mortgage - Fees**

Lender's Points	1.0%
Loan Closing Costs	1.0%

**1st Mortgage Calculations**

LTV	70%
DSCR	1.2
Term	30 years
NOI at Stabilized Year	\$4,370,303
Rev value at Issuance	\$88,827,289
Initial Bal. Based on DSCR	\$54,424,473
Initial Bal. Based on LTV	\$62,179,102
Beginning Balance	\$54,424,473
Principal	
Perm Loan Interest Rate	5.25%

<b>Levered IRR</b>	<b>15.99%</b>
--------------------	---------------



<b>Product Type</b>	<b>Podium/Deck</b>
<b>Unlevered IRR</b>	<b>10.55%</b>
<b>Levered IRR</b>	<b>16.00%</b>

Category	Inputs						
<b>Construction Period Costs</b>							
Construction Period	28 Months						
Construction Loan to Cost	65%						
Construction Interest Rate	4.75%						
Lease-Up Period	8 Months						
Stabilization	36 Months						
Construction lender's points	1%						
Construction loan closing costs	1%						
Net / Gross SF Ratio	79%						
Hard Costs	\$190/SF						
Soft Costs	\$38/SF						
Land Costs (GSF)	\$45/SF						
Developer Fee	3%						
<b>NOI</b>							
<b>Potential Gross Income</b>			<b>Units</b>	<b>Avg SF</b>	<b>Total</b>	<b>Total PGI</b>	<b>Rent Escalation</b>
Studio	\$0.00/SF	x	0	525 SF	0 SF	\$0	3.0%
1 BR	\$0.00/SF	x	0	0 SF	0 SF	\$0	3.0%
2 BR	\$2.49/SF	x	200	1,100 SF	220,000 SF	\$548,496	3.0%
3 BR	\$0.00/SF	x	0	0 SF	0 SF	\$0	3.0%
<b>Subtotal</b>						<b>\$6,581,955</b>	
Less Vacancy	7.0%					(\$460,737)	
<b>Effective Gross Income (EGI)</b>						<b>\$6,121,218</b>	
Less Opex	\$4,350	x			200	(\$870,000)	3.0%
Less Utilities	\$0	x			200	\$0	3.0%
Less Taxes	\$3,300	x			200	(\$660,000)	3.0%
<b>NOI</b>						<b>\$4,591,218</b>	
<b>Cap Ex Contingency</b>	<b>3.0%</b>						
<b>Exit Year</b>							
Exit Month	96 Months						
Exit Cap Rate	4.75%						
<b>Gross Proceeds</b>							
Less Cost of Sale	1%						
<b>Cashflow before perm. Loan</b>							
Unlevered IRR	10.55%						
<b>1st Mortgage - Fees</b>							
Lender's Points	1.0%						
Loan Closing Costs	1.0%						
<b>1st Mortgage Calculations</b>							
LTV	70%						
DSCR	1.2						
Term	30 years						
NOI at Stabilized Year	\$4,870,823						
Rev value at Issuance	\$102,543,651						
Initial Bal. Based on DSCR	\$62,397,079						
Initial Bal. Based on LTV	\$71,780,556						
Beginning Balance	\$62,397,079						
Principal							
Perm Loan Interest Rate	5.00%						
<b>Levered IRR</b>	<b>16.00%</b>						

<b>Product Type</b>	<b>Highrise</b>
<b>Unlevered IRR</b>	<b>10.50%</b>
<b>Levered IRR</b>	<b>15.95%</b>

<b>Category</b>	<b>Inputs</b>
-----------------	---------------

<b>Construction Period Costs</b>	
Construction Period	32 Months
Construction Loan to Cost	65%
Construction Interest Rate	4.75%
Lease-Up Period	8 Months
Stabilization	40 Months
Construction lender's points	1%
Construction loan closing costs	1%
Net / Gross SF Ratio	79%
Hard Costs	\$234/SF
Soft Costs	\$47/SF
Land Costs (GSF)	\$60/SF
Developer Fee	3%

**NOI**

Potential Gross Income		Units	Avg SF	Total	Total PGI	Rent Escalation
Studio	\$0.00/SF	x 0	575 SF	0 SF	\$0	3.0%
1 BR	\$0.00/SF	x 0	0 SF	0 SF	\$0	3.0%
2 BR	\$2.93/SF	x 200	1,100 SF	220,000 SF	\$644,602	3.0%
3 BR	\$0.00/SF	x 0	0 SF	0 SF	\$0	3.0%

<b>Subtotal</b>					<b>\$7,735,229</b>	
-----------------	--	--	--	--	--------------------	--

Less Vacancy	7.0%				<b>(\$541,466)</b>	
--------------	------	--	--	--	--------------------	--

<b>Effective Gross Income (EGI)</b>					<b>\$7,193,763</b>	
-------------------------------------	--	--	--	--	--------------------	--

Less Opex	\$4,518	x		200	<b>(\$903,600)</b>	3.0%
Less Utilities	\$0	x		200	\$0	3.0%
Less Taxes	\$3,554	x		200	<b>(\$710,800)</b>	3.0%

<b>NOI</b>					<b>\$5,579,363</b>	
------------	--	--	--	--	--------------------	--

<b>Cap Ex Contingency</b>	3.0%
---------------------------	------

**Exit Year**

Exit Month	96 Months
Exit Cap Rate	4.60%

**Gross Proceeds**

Less Cost of Sale	1%
-------------------	----

**Cashflow before perm. Loan**

Unlevered IRR	10.50%
---------------	--------

**1st Mortgage - Fees**

Lender's Points	1.0%
Loan Closing Costs	1.0%

**1st Mortgage Calculations**

LTV	70%
DSCR	1.2
Term	30 years
NOI at Stabilized Year	\$5,919,146
Rev value at Issuance	\$128,677,085
Initial Bal. Based on DSCR	\$75,826,484
Initial Bal. Based on LTV	\$90,073,959
Beginning Balance	\$75,826,484
Principal	
Perm Loan Interest Rate	5.00%

<b>Levered IRR</b>	<b>15.95%</b>
--------------------	---------------

## Appendix B: Interview Key Findings

### B.1 Key Findings

#### **Market Fundamentals are Responsible for Much of the Growth in Housing Costs in Atlanta**

The stakeholders interviewed broadly stated that growth in demand for housing in select neighborhoods and the resulting increase in land prices are responsible for much of the recent growth in housing costs in Atlanta. Several stakeholders interviewed attributed the growing demand for housing to regional job growth, population growth, and GDP growth, which collectively increase the demand for and price of housing units. Many stakeholders noted that despite the rise in prices, Atlanta as a metropolitan area has a relatively high number of affordable units as compared to other major US cities. This feedback regarding the influence of market fundamentals is consistent with our findings from other areas of research and analysis, including our current work conducting a housing needs assessment for the City of Atlanta.

#### **The Rise in Demand is Concentrated in Select Neighborhoods**

While highlighting that market fundamentals (the level of housing supply and demand) are responsible for much of the increase in cost, several stakeholders noted that rising prices are concentrated in select neighborhoods that offer high quality services, schools, and access. In these neighborhoods, such as Buckhead and Midtown, competition to secure developable land that is suitable for multifamily product has resulted in significant increases in land prices.

#### **Municipal Policies have had Limited Impact on the Increase of Housing Costs and on the Supply of Housing in the city of Atlanta**

When queried directly, none of the stakeholders interviewed believed that municipal policies in the city of Atlanta significantly impacted the supply of housing or the level of market rents. While, stakeholders did cite practices and policies that were sources of aggravation, they acknowledged that these policies likely had little impact on prices market-wide. Stakeholders did express reservations about the recently passed inclusionary housing requirement along the BeltLine. Some developers opined that they would be unlikely to look for opportunities in the BeltLine area as a result of this policy. However, most stakeholders acknowledged that it is too early to determine how this inclusionary housing requirement and any accompanying incentives to offset the reduction in revenues will impact the supply of housing and resulting market rents.

Stakeholders widely called attention to two highly aggravating policies: time delays in securing entitlements and certificates of occupancy as well as modest increases in hard costs due to revisions required by inspectors despite prior plan approval. Interviewees revealed that the monetary burden of these issues does not generally rise to a level that substantially changes the economics and rents of multifamily projects. In preliminary assessment using a pro forma analysis of various scenarios, including multi-month delays, HR&A affirmed that the impact to rents of these challenges would be minor. However, these costs and delays are extremely irritating due to the arbitrary decision process and time-consuming nature for the personnel involved. While not likely to have notable effect on housing prices, improving the City's approach to permitting and inspections remains a worthy endeavor in order to limit wasted time and minimize any unnecessary costs.

### **The Level of Discretionary Approvals in the Entitlement Process is Directly Associated with an Increase in Real Estate Project Risks, but the Impact on Rents/Affordability are Unclear**

Stakeholders widely cited required discretionary approvals as increasing the risk that a real estate project fails or requires a reduction in the number of units to attain entitlements. However, stakeholders also widely opined that the city of Atlanta generally facilitates new development, and that while some Neighborhood Planning Units (NPU) make development difficult, the entitlement review process is not appreciably more challenging than other major U.S. cities. In addition, none of the stakeholders was able to identify or quantify how discretionary approval affects the required project returns or rents, although they did volunteer that they are cautious about undertaking projects that require rezoning or variances, indicating that these requirements likely decrease the overall level of housing supply. As a result of the unclear linkages between discretionary approvals and overall housing supply and rents, HR&A recommends that the report contain a qualitative discussion in addressing Atlanta's ability to increase the area where multifamily housing is allowed by-right to promote additional supply and improve affordability.

While stakeholders acknowledged that the City of Atlanta takes a positive approach to development, the cities of Sandy Spring and Dunwoody were cited frequently as areas that prevent new growth through a punitive entitlement process. In addition to these specific municipalities, several stakeholders mentioned that other northern suburbs in general are challenging for development.

### **Improving the Affordability of Housing in the city of Atlanta May Involve Initiatives to Increase the Demand of Underserved Neighborhoods**

Consistent with the view that the rise in prices is concentrated in select areas and that Atlanta's policies have had limited impact on housing affordability levels, several stakeholders observed a need in Atlanta to increase the desirability of other neighborhoods by improving services to ease development pressures. Specifically, several stakeholders believe that Atlanta should make improvements to area schools as a means of making less-desirable neighborhoods more attractive. Several stakeholders also identified improving the efficacy of local funds dedicated for affordable housing and for revitalization to spur additional development but did not offer details regarding what level of financial incentive would be sufficient to induce projects in previously-overlooked neighborhoods. Stakeholders were generally otherwise unable to identify initiatives or policies they believe the City should pursue.